

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF ADRIAN, MICHIGAN	County LENAWEE
Audit Date JUNE 30, 2005	Opinion Date SEPTEMBER 16, 2005	Date Accountant Report Submitted to State: NOVEMBER 22, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

RECEIVED
DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

NOV 23 2005

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the report of comments and recommendations

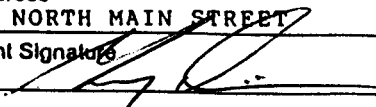
LOCAL AUDIT & FINANCE DIV.

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) ROBERTSON, EATON & OWEN, P.C.			
Street Address 121 NORTH MAIN STREET	City ADRIAN	State MI	ZIP 49221
Accountant Signature 			

**COMPREHENSIVE
ANNUAL FINANCIAL REPORT
CITY OF ADRIAN, MICHIGAN
DEPARTMENT OF FINANCE**

For the Fiscal Year Ended June 30, 2005

Prepared by the Finance Department

**JEFFREY C. PARDEE, C.P.F.O., Director of Finance
CINDY L. PRUE, Assistant Director of Finance**

CITY OF ADRIAN, MICHIGAN
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 For Fiscal Year Ended June 30, 2005
 TABLE OF CONTENTS

	<u>PAGE</u>
INTRODUCTORY SECTION	
Letter of Transmittal	1 – 18
GFOA Certificate of Achievement	19
Organization Chart	20
List of Elected and Appointed Officials	21
FINANCIAL SECTION	22 – 23
Independent Auditors' Report	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	24 – 25 26 – 39
Management's Discussion and Analysis	
Basic Financial Statements:	
<i>Government-wide Financial Statements:</i>	
Statement of Net Assets	40 – 41
Statement of Activities	42 – 43
<i>Fund Financial Statements:</i>	
Balance Sheet – Governmental Funds	44
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	45
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	46 – 47
Reconciliation of the Statements of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	48
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	49 – 51
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Major Streets – Special Revenue Fund	52
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Local Streets – Special Revenue Fund	53 54 – 55
Statement of Net Assets – Proprietary Funds	
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Funds	56 57 – 58
Statement of Cash Flows – Proprietary Funds	59
Statement of Fiduciary Assets and Liabilities – Agency Funds	60 – 85
Notes to Financial Statements	

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Required Supplemental Information:	
Schedule of Funding Progress – City’s Defined Benefit Pension Plan (MERS)	86
Combining and Individual Fund Statements and Schedules – Nonmajor Governmental Funds:	
Combining Balance Sheet – Nonmajor Governmental Funds	87 – 88
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	89 – 90
<i>Schedules of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual:</i>	
Municipal Street – Special Revenue Fund	91
Community Development – Special Revenue Fund	92
Economic Development – Special Revenue Fund	93
OMNI – Special Revenue Fund	94
Combining and Individual Fund Statements – Nonmajor Enterprise Funds:	
Combining Statement of Net Assets – Nonmajor Enterprise Funds	95 – 96
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets – Nonmajor Enterprise Funds	97 – 98
Combining Statement of Cash Flows – Nonmajor Enterprise Funds	99– 100
<i>Capital Projects Revolving Enterprise Fund:</i>	
Comparative Statements of Net Assets	101
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	102
Comparative Statements of Cash Flows	103
<i>Dial-A-Ride Enterprise Fund:</i>	
Comparative Statements of Net Assets	104
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	105
Comparative Statements of Cash Flows	106
<i>Automobile Parking System Enterprise Fund:</i>	
Comparative Statements of Net Assets	107
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	108
Comparative Statements of Cash Flows	109
<i>Storm Water Utility Enterprise Fund:</i>	
Comparative Statements of Net Assets	110
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	111
Comparative Statements of Cash Flows	112

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2005

TABLE OF CONTENTS

	<u>PAGE</u>
Individual Fund Statements –	
Major Enterprise Funds:	
<i>Wastewater System Enterprise Fund:</i>	
Comparative Statements of Net Assets	113 - 114
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	115
Comparative Statements of Cash Flows	116 - 117
<i>Water System Enterprise Fund:</i>	
Comparative Statements of Net Assets	118 – 119
Comparative Statements of Revenues, Expenses and Changes in Fund Net Assets	120
Comparative Statements of Cash Flows	121– 122
Fiduciary Funds – Agency	
Combining Statement of Changes in Assets and Liabilities – All Agency Funds	123
Individual Fund Statements – Discretely Presented	
Component Units:	
<i>Downtown Development Authority – Special Revenue Fund –</i>	
<i>Discretely Presented Component Unit:</i>	
Comparative Balance Sheets	124
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance	125
<i>Downtown Development Authority – Debt Service Fund –</i>	
<i>Discretely Presented Component Unit</i>	
Comparative Balance Sheets	126
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance	127
<i>Local Development Finance Authority – Debt Service Fund –</i>	
<i>Discretely Presented Component Unit:</i>	
Comparative Balance Sheets	128
Comparative Statements of Revenues, Expenditures and Changes in Fund Balance	129
Other Financial and Supplemental Information:	
Schedule of Indebtedness	130 – 137

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For Fiscal Year Ended June 30, 2005

TABLE OF CONTENTS

STATISTICAL SECTION	<u>PAGE</u>
Financial Trends	
These Schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time	
Exhibit B-1: Net Assets by Component (Last Three Fiscal Years)	138
Exhibit B-2: Changes in Net Assets (Last Three Fiscal Years)	139 – 140
Exhibit B-3: Fund Balances – Governmental Funds (Last Ten Fiscal Years)	141
Exhibit B-4: Changes in Fund Balances – Governmental Funds (Last Ten Fiscal Years)	142
Exhibit B-5: Program Revenues by Function/Program (Last Three Fiscal Years)	143
Exhibit B-6: Tax Revenues by Source – Governmental Funds (Last Ten Fiscal Years)	144
Revenue Capacity	
These Schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.	
Exhibit C-1: Assessed Value and Taxable Value of Real and Personal Property (Last Ten Fiscal Years)	145
Exhibit C-2: Direct and Overlapping Property Tax Rates (Last Ten Fiscal Years)	146
Exhibit C-3: Principal Property Tax Payers (Current Year and Nine Years Ago)	147
Exhibit C-4: Property Tax Levies and Collections (Last Ten Years)	148
Debt Capacity	
These Schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.	
Exhibit D-1: Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)	149
Exhibit D-2: Ratios of General Bonded Debt Outstanding (Last Ten Fiscal Years)	150
Exhibit D-3: Direct and Overlapping Governmental Activities Debt As of June 30, 2005	151
Exhibit D-4: Legal Debt Margin Information (Last Ten Fiscal Years)	152
Exhibit D-5: Pledged-Revenue Coverage (Last Ten Fiscal Years)	153

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL REPORT
For Fiscal Year Ended June 30, 2005
TABLE OF CONTENTS

	<u>PAGE</u>
STATISTICAL SECTION (Continued)	
Demographic and Economic Information	
These Schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.	
Exhibit E-1: Demographic and Economic Statistics (Last Ten Fiscal Years)	154
Exhibit E-2: Principal Employers (Current Year and Nine Years Ago)	155
Operating Information	
These Schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.	
Exhibit F-1: Full-Time City Government Employees by Function/Program (Last Ten Fiscal Years)	156
Exhibit F-2: Operating Indicators by Function/Program (Last Ten Fiscal Years)	157
Exhibit F-3: Capital Asset Statistics by Function/Program (Last Ten Fiscal Years)	158



100 E. Church St. • Adrian, Michigan 49221-2773

Finance Department

(517) 263-2161 • Fax (517) 265-8133

COMPREHENSIVE ANNUAL FINANCIAL STATEMENT

Transmittal Letter

October 28, 2005

To the Citizens of the CITY OF ADRIAN, MICHIGAN,
Honorable Mayor and Members of the City Commission:

Formal Transmittal of the Comprehensive Annual Financial Report (CAFR)

Michigan State law requires that all general-purpose local governments publish within six months of the close of each fiscal year a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the CITY OF ADRIAN for the fiscal year ended June 30, 2005.

In June 1999, the Governmental Accounting Standards Board (GASB) adopted Statement Number 34, *Basic Financial Statements – and Management’s Discussion and Analysis – For State and Local Governments*. This new accounting pronouncement has a substantial impact on both the format and content of the information included in this report, the second Comprehensive Annual Financial Report prepared under the requirements of the new reporting model. Tom Allen, GASB Chairman stated, “This is the most significant change to occur in the history of governmental financial reporting.”

The new financial reporting model requires general-purpose governments to present the following basic financial statements and Required Supplementary Information (RSI) in order for the financial statements to be in conformance with generally accepted accounting principles (GAAP):

- Management’s Discussion and Analysis (MD&A)
- Government-wide Financial Statements
- Fund Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information (RSI)
- In addition, the State of Michigan requires that individual fund columns be presented for all funds and component units.

The new financial statement includes a discussion of the City's financial condition and outlook. The new *Management Discussion and Analysis* (MD&A) precedes the full-accrual "*Government-wide Financial Statements*" that are intended to show whether today's taxpayers have paid the full cost of the services received. These full-accrual statements are followed by a revised version of the financial statements previously reported, "*Fund Financial Statements*", which report governmental activities on the "modified accrual" basis of accounting, followed by *Footnote Disclosures* and *Required Supplementary Information* (RSI).

The financial statements include several tiers of information, some of which are familiar and some of which are new. The MD&A, a narrative discussion preceding the government-wide financial statements, will analyze:

- The City's financial performance for the year
- A comparison of the current year to the prior year
- A discussion of whether the City's financial position has improved or deteriorated during the year
- Significant changes in individual funds
- Significant budget variances
- A brief explanation of capital asset and long term debt activity
- Any likely future significant changes in financial position or operating results.

The second tier of information includes the two new full-accrual "*government-wide*" financial statements prepared using the economic resources measurement focus; the **Statement of Net Assets** and the **Statement of Activities**. These government-wide financial statements now include all capital assets, including infrastructure, as well as the cost of asset purchases over the years they are in service (i.e., depreciation). These statements also include all long-term liabilities, including employee compensated absences. Compensated absences are recognized as expenses in the year that the employees' services are rendered, since this is when the employees earn them. For example, governments are now required to charge the cost of employee benefits, including sick and vacation pay, over the years that employees are rendering services (rather than decades later, when those benefits are typically paid).

The financial statements maintain some familiarity in the third tier, the "*Fund*" financial statements. The traditional modified accrual reporting of individual governmental funds has been retained. The GASB believes that this is the preferable method to show budgetary accountability. Significant individual funds (referred to as "Major" funds) are presented

separately on the statements preceding the footnotes. The fund-based statements are separated into three sections:

- governmental funds
- proprietary funds (e.g., water and waste water funds), and
- fiduciary funds (e.g., Agency Fund).

The government-wide and fund financial statements continue to require various note disclosures to supplement the basic financial statements.

Required Supplementary Information (RSI), presented after the notes to the financial statements, include budgetary comparison schedules for the debt service and non-major special revenue funds (e.g., Community Development Fund). Budget to actual comparisons include the original budget, as well as the final amended budget.

The Comprehensive Annual Financial Report consists of management's representations concerning the finances of the City of Adrian. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Adrian has established a comprehensive internal control framework that is designed to both protect the government's assets from loss, theft or misuse and to compile sufficient reliable information for the preparation of the City of Adrian's financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefits, the City of Adrian's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Adrian's financial statements have been audited by Robertson, Eaton & Owen, P.C., a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Adrian for the fiscal year ended June 30, 2005, are free from material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the City of Adrian's financial statements for the

fiscal year ended June 30, 2005, are fairly presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Adrian was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. The Single Audit Report is an integral part of this Comprehensive Annual Report (Reference pages 139-142).

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Adrian's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The City of Adrian, founded in 1825, incorporated in 1853 and re-chartered in 1957, is the county seat of Lenawee County, one of the richest agricultural counties in Michigan. The population of the City of Adrian in 2000 was 22,215, with moderate growth in population since then. Adrian is located 33 miles northwest of Toledo, Ohio, 37 miles south of Ann Arbor and 59 miles southwest of Detroit, and is served by Michigan highways US223, M52 and M34. The City of Adrian is empowered to levy a property tax on both real and personal properties located within its boundaries. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the City Commission, in accordance with the rules and regulations of the State Boundary Commission. In recent years the City boundaries have expanded through annexation by 1.2 square miles, from 6.9 square miles to 8.1 square miles.

The City of Adrian has operated under the commission-administrator form of government since 1957. Policy-making and legislative authority are vested in a governing commission consisting of the mayor and six other members elected at-large on a non-partisan basis. The City Commission is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring both the

government's administrator and attorney. The City Administrator is responsible for carrying out the policies and ordinances of the City Commission, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. Commission members serve four-year staggered terms, with three Commission members elected every two years. The mayor is elected to serve a two-year term.

The City of Adrian provides a full range of services, including police and fire protection, sanitation services, construction and maintenance of highways, streets and other infrastructure, Dial-A-Ride transportation and Community Development services and recreational activities and cultural events. In addition to general government activities, the City Commission is financially responsible for the activities of the water and sewer systems, the City of Adrian Building Authority, a blended component unit, therefore, its activities are included as an integral part of the reporting entity. Also included in the City's financial report are the Downtown Development Authority and the Local Development Finance Authority as discreetly presented component units. However, the Adrian Board of Education and the Bixby Medical Center have not met the established criteria for inclusion in the reporting entity and, accordingly, are excluded from the financial report.

FACTORS AFFECTING FINANCIAL AND ECONOMIC CONDITION

The annual budget serves as the foundation for the City of Adrian's financial planning and control. All departments of the City government are required to submit requests for appropriation to the City's Chief Fiscal Officer on or before the last Tuesday in February each year. The City Administrator uses these requests as the starting point for developing a proposed budget. The Recommended Budget is presented to the City Commission for consideration at the first Commission Meeting in April. The Commission is required to hold a public hearing on the proposed budget and to adopt a final budget by no later than the Commission's second meeting in May. The appropriated budget is prepared by fund (e.g., General Fund), department (e.g., Parks and Recreation) and activity (e.g., Swimming Pool). Transfers of appropriations within and between departments require the special approval of the City Commission in the form of a budget amendment. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, Major and Local Street Funds, these comparisons are provided on Pages 51-55 as part of the basic financial statements for the governmental funds. For governmental

funds, other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on Page 93.

On the November, 2003 General Election Ballot, there was a question regarding the detachment of City of Adrian properties to the Charter Township of Adrian. The taxable value of the subject properties approximates \$5.1 million and would generate about \$69,000 in additional tax revenue. Since these properties were recently annexed by the City of Adrian and subsequently called into question, they remained on the Charter Township of Adrian assessment and tax rolls until the issue was resolved by a majority vote reaffirming the previous annexation. The taxable value of the subject properties were transferred from the Township to the City, beginning with the 2004 Assessment Roll and reflected in the FY2004-05 Tax Roll.

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Adrian operates.

ECONOMIC OUTLOOK

National Economy – It will be months before the full economic effects of Hurricanes Katrina, Rita and Wilma are sorted out, but the early signs are encouraging. As expected, about 200 thousand workers in the Gulf Coast region lost their jobs in September, and the count continued to climb in October. The storms' shock, and the government's slow initial response, sent consumer confidence plummeting and energy prices soaring. But the broader economy appears to be holding up well – so far. Indeed, outside the Gulf Coast, more jobs were created in September than expected, and consumers – despite higher energy bills and sinking confidence – kept their wallets open, stepping up spending on most everything except gas-guzzling autos.

In the immediate aftermath of the storms, the major worry was that economic growth would stall, or at least slow significantly, until the government's massive relief spending and reconstruction efforts kicked in. A month later, however, the major worry is not stagnation but inflation. Increased energy prices are now seen primarily as just another force boosting inflation. After twelve straight hikes in the interest rate, speculation that the Federal Reserve Board might go on hiatus has been all but abandoned. There is at least one, and probably more, rate increases in store in the months ahead.

It is not unusual for external shocks to cause wild swings in economic perceptions. But the public psyche has been battered by an unusually

large number of upheavals in recent years. The bursting of the dot.com bubble and stock-market collapse occurred soon after the start of the new millennium. That was swiftly followed by the heinous terrorist attacks in 2001, the Enron debacle that led to a slew of corporate accounting scandals in 2002, and the Iraq invasion in 2003. Mother Nature then reinforced these man-made adventures, producing four virulent hurricanes in the summer of 2004 that were overshadowed by this year's Katrina, Rita and Wilma. Finally, a demand-induced oil-price spiral that got underway in 2003 morphed into today's hurricane-induced energy crisis.

What's so remarkable is how even keel the economy has remained in the face of these seismic events. True, there has been a knee-jerk reaction in almost every case. For example, consumer spending plunged immediately following the terrorist attacks, only to swiftly recover a month later. Similarly, Hurricane Ivan slashed industrial production in September 2004, but factory output rebounded strongly in October, more than making up the loss. Simply put, as long as the fundamental underpinnings remained intact, the economy has shown an amazing ability to bounce back from adverse shocks and return to its previous growth track.

Indeed viewed over quarterly periods, the economy's performance has been a model of stability for some time. Since the final quarter of 2003, for example, the Gross Domestic Product (GDP) growth rate has fluctuated on average by only 0.6 percent, a record of consistency unmatched in the post-war period. During the 1992-2000 expansion, by contrast, the average fluctuation was three times larger, coming in at 1.8 percent.

Clearly, the Federal Reserve's timely and well-telegraphed policy moves during this period contributed to the economy's steady performance. By the time Greenspan & Company started to remove some of its excessive monetary accommodation in June 2004, the financial markets had been adequately forewarned. Hence, the first quarter-point rate increase, from a 40-year low of one percent, was totally expected and hardly caused a ripple to the markets. Nor for that matter did the twelve quarter-point increases that followed, all of which were advertised in advance by the now infamous phrase "policy accommodation can be removed at a pace that is likely to be measured" issued by the Fed at each of its rate-setting meetings, including the last one on November 1.

Ostensibly, the Fed's motive for raising rates is to prevent an outbreak of inflation. With the Consumer Price Index (CPI) surging by 4.7% in September from a year earlier, the sharpest increase since 1991, it would seem to have a strong case. True, virtually all of the acceleration in

consumer prices this year has been due to climbing energy costs; the so-called core CPI, which excludes volatile food and energy products, has actually decelerated, edging up by 2.0 percent in September, down from a peak rate of 2.4 percent in February.

But the Fed is concerned that climbing energy costs will soon get passed through into other goods and services, something that is sporadically happening in the transportation, chemical, agricultural and other industries. What's even more worrisome is that inflationary expectations are rising, which could become a self-fulfilling prophecy if consumers start buying goods and services in advance of anticipated price increases. If these expectations spread to the labor market, provoking workers into demanding higher wages to compensate for lost purchasing power, the classic wage-price inflation dynamic would become embedded in the economic fabric, giving the inflation spiral even more traction.

Yet, there is little evidence that expectations are influencing consumer behavior or the wage bargaining process. Instead, the headline-grabbing bankruptcies in the auto and airline industries are focusing the spotlight on the huge wage concessions being imposed on workers. Weighing expectations against reality will be the biggest challenge facing policy makers in the months ahead.

State Economy – Michigan's automotive future doesn't lie in sprawling plants and smokestacks but in scores of nondescript office parks. These unassuming facilities are home to Michigan's automotive research and development industry, an economic force that employs 60,000 people at more than 200 companies. Every automaker has some R&D operation in Michigan. Michigan has been the center of automotive R&D since the late 1890s, when Henry Ford was tinkering with automobiles in a Detroit garage. In 1919, General Motors Corp. formed its own university, now Kettering University, to train automotive engineers. The National Science Foundation said \$10.3 billion was spent on automotive research and development in Michigan in 2002, the latest year available. That amount has almost certainly grown. Since August 2004, 43 auto-related companies have either opened facilities in Michigan or expanded existing ones, according to the state.

Michigan consistently wins up to 80 percent of all automotive R&D spending. The state's closest rival in automotive R&D, California, got less than one-fifth of the amount spent in Michigan in 2002. The money isn't just coming from the Big Three U.S. automakers. Japan's Nissan Motor Company opened a new design center in Farmington Hills in March and South Korea's Hyundai Motor Company is close to completing a \$117 million, 190,000-square-foot R&D facility near Ann Arbor, commuting distance from Adrian. Also in nearby Washtenaw County,

Toyota Technical Center USA, Inc., has filed preliminary plans for a research and development complex and test track on a 690 acre parcel just north of the Lenawee County line. The company envisions a \$102.2 million clustered complex of about 25 acres of offices, 65 of labs, 80 for parking and 375 for future development. The first phase of the project, involving the construction of approximately 350,000 square feet of office, research and laboratory space at the site is expected to bring in \$100 million in state tax revenues in the next 20 years and create 400 jobs. The average worker at the Toyota R&D center will make \$1,588 per week, according to the state. That's more than double Michigan's average weekly wage of \$758 in 2003, according to the Bureau of Labor Statistics.

With that level of investment behind it, Michigan is in little danger of losing its dominant position in automotive R&D. But the state's history has taught that it can't get complacent in the highly competitive auto industry. In the last ten years, Michigan has lost more than 78,000 auto manufacturing jobs. According to an article in the October edition of the *Economist*, manufacturing now accounts for less than ten percent of the total jobs in America. Shrinking employment in any sector sounds like bad news. It isn't. Manufacturing jobs disappear because economies are healthy, not sick.

Manufacturing output continues to expand in America, by almost 4 percent a year on average since 1991. Despite the rise in Chinese exports, America is still the world's biggest manufacturer, producing about twice as much, measured by value, as China. The continued growth in manufacturing output shows that the fall in jobs has not been caused by mass substitution of Chinese goods for locally made ones. It has happened because U.S. companies, including those in Michigan, have replaced workers with new technology to boost productivity. Faster productivity growth means higher average incomes. Low rates of unemployment in areas which have shifted away from manufacturing suggest that most laid-off workers have found new jobs. And consumers have benefited from cheap Chinese imports.

Nevertheless, there were about 16,000 more manufacturing jobs in Michigan in August compared to July, mainly due to the return of worker laid off when the auto industry shuts down to change models. The number of seasonally unadjusted payroll jobs in Michigan rose by 21,000 to about 4.32 million. Michigan's seasonally adjusted unemployment rate was 6.7 percent in August, compared with the national rate of 4.9 percent. The regional unemployment rates ranged from a low of 4.1 percent in the Ann Arbor area to a high of 7.3 percent in the Flint area. Lenawee County's rate of 6.4 percent, compared to 8.0 percent in July 2004, was tied for 55th-highest among the state's 83 counties.

Local Economy - Adrian community leaders have been on the cutting edge of attracting and promoting commerce throughout the City's history, from establishing the first railroad East of the Alleghenies in 1836 to obtaining one of the first Michigan Economic Growth Authority (MEGA) tax credits for the Solvay Automotive Project in 1995. The Adrian area serves as the corporate headquarters for several businesses including Merillat Industries (a division of Masco). The Gleaner Life Insurance Society, the Kapnick Insurance Company and others.

The employer base remains diversified with several less recession-sensitive employers located in the community including governmental (City and County governments and a State Police Post) educational (Adrian College, Siena Heights College, Adrian Public Schools and the Intermediate School District, as well as the ISD-Vocational Education Center) and institutional organizations (Bixby Medical Center and Michigan Correctional Facility).

Adrian is the core community of the central region of Lenawee County. Its household count increased by over eight percent between 1990 and 2003, growing from 7,479 to 8,111. By 2008, this number is expected to increase to 8,449. If these projections hold, by 2008 a total of 338 new households will reside within the City.

The Lenawee County Chamber of Commerce is planning for the County's economic future with the development of a partnership with the University of Michigan Business School called "Lenawee's Future By Design." This project, now in its second year, began with a comprehensive analysis of Lenawee County in which virtually all sectors were interviewed, prodded and probed to uncover strengths, weaknesses, opportunities and threats. The insights gained from this research in educational, manufacturing, agricultural, banking and finance, and other sectors provided the foundation for the Future By Design.

After analyzing numerous potential projects against a comprehensive set of screening and selection criteria, four initial projects were elected to receive the support of Future By Design. These projects, covering agricultural, industrial, workforce development, and tourism sectors, should provide strong stimulus to the Lenawee County economy. Some of the project selection criteria included:

- The project parameters are well-defined and include the component of construction and/or problem solution and/or process improvement.
- The business plan is well-developed and meets the standards of due diligence.

- The project can be implemented relatively quickly and the desired results can be delivered in the short-term.
- The chances of funding are relatively high.
- The project includes well-defined and specific performance objectives, which have a high probability of being met on schedule.
- The project has a high potential for job creation; for generating new tax revenues; and for overall economic growth.

The four initial projects identified are not the sum total of Lenawee's Future By Design – they are just the beginning of it. Over the next few years, more projects will be considered, evaluated and, ultimately implemented. The information uncovered by the University of Michigan survey, along with the process to identify valuable projects, ensures a collective effort in determining the future of the Lenawee County economy. The end result? Existing businesses will be able to continue to grow; schools will thrive; and new businesses will come, creating more economic diversity and job opportunities.

The best laid plans, however, are sometimes interrupted by realities of economic disruptions due to down-sizing and plant closings. Under the federal Worker Adjustment and Retraining Notification Act, companies permanently laying off 50 or more workers must report the details to the U.S. Department of Labor and the Michigan Department of Labor and Economic Growth. This report triggers a "Rapid Response Team" intervention to try to determine if there is any opportunity to save all or some of the jobs.

In our region, the response is organized by South Central Michigan Works, a local workforce development board serving Lenawee, Hillsdale and Jackson counties. Both private employers and nonprofit workforce development agencies are represented on this board. Records for the period 1997-2005 reflect plant closings resulting in layoffs of fifty or more as follows: Lenawee, 33; Hillsdale, 13; and Jackson, 49. Jobs lost by county are: Lenawee, 2,200; Hillsdale, 1,101; and Jackson, 4,226. A large part of "Building Lenawee's Future By Design" is helping our workforce and communities transition to the new economy. We are targeting different types of jobs for the future, ones that are higher value-added and less vulnerable to outsourcing and off-shoring. We continue a comprehensive effort to retain current jobs or, at least, extend them for as long as possible. An additional \$89,253 has been allocated to the South Central Michigan Works to help administer the Incumbent Worker Program (IWP). The IWP is a training program designed to upgrade skills of participants in order to encourage promotion and avert layoffs among Michigan laborers. Funded by the Department of Labor and Economic Growth, the state-wide \$3 million IWP Program is coupled with other

employment programs, such as Work First and the Workforce Investment Act, to see that Michigan workers fill any vacancies created.

Long Term Financial Planning – Each December the City Commission and Department Heads convene to develop a five-year strategic plan for capital improvements. Highlights of the current program include:

- the continuing upgrade of computer technology throughout the City departments, including a new financial system, Library records management system, automated parking enforcement system, and City Clerk/Police Department document management system,
- prudent use of the \$18 million Fee Estate endowment to expand passive recreation throughout the community, such as the recent completion of the Trestle Park,
- design phase of Burr Ponds Park renovation project has been completed and contractor selected and approved by the City Commission; financing alternatives are under consideration, with the intention of making water resources accessible to park users,
- A new Parks and Forestry Maintenance Facility is near completion of the design phase of development,
- Street tree inventory was completed in 2002 and an additional 700 new planting sites will be added to the 6,500 trees currently existing on City right-of-ways,
- The burial records of the 19,000 former residents interred at the Oakwood Cemetery since 1848 have been computerized to aid visitors and researchers in their identification and location efforts,
- Voters recently approved a two-year fourteen (14%) percent telephone surcharge to support the Lenawee County Central Dispatch to update the 911 system by adding computer-aided dispatch (CAD) Countywide,
- replacement of the Police Department's record management software,
- Fire Department equipment has been upgraded and expanded to better serve homeland security requirements,
- the City Clerk plans to upgrade the City's election system and initiate a new electronic archiving system that will facilitate access to City records and save space,
- infrastructure improvements are progressing throughout the City, including implementation of a storm-water separation project, accelerated sidewalk repair and replacement program and many street improvement projects, as well as installation of an electric generator to eliminate power interruptions that cause sanitary sewer overflows and plant permit violations,

- the Utilities Department has identified a new ground water source that has the capability of replacing the current surface water source of the City's potable water supply,
- continued additions to the book collection of the Adrian City Library's \$25 million inventory.

Long-range financial planning, of course, is affected by the City's revenue stream. The negative effects of "Proposal A" of 1994 are finally coming home to roost, particularly for older, low-growth rate communities like Adrian. The full impacts of this proposal on local government service levels were delayed by the unusually long robust economy experienced through the mid- and late 1990s. Proposal A will reduce City General Fund revenues from property taxes by about \$1,000,000 during fiscal year 2005-06 alone. Because of the State's greater reliance on the sales tax as a revenue producer, the slowing economy had a greater relative effect on State shared revenue payments, on which about 1/3 of the City's General Fund revenues are dependent.

On the other hand, auguring in the City's favor is the fact that State shared revenue formulas are also highly population-weighted. Therefore on the brighter side, the Federal Census Bureau has corrected the City of Adrian's census count, adding 641 persons. This has resulted in the City actually gaining 118 people between 1990 and 2000, instead of the 523-person loss that the original faulty count indicated. This extra population may result in the City realizing up to \$80,000 per year more in State shared revenues than originally contemplated. It should be noted that the policy of the State Department of Treasury regarding the use of population figures in the calculation of State Revenue Sharing payments is adjusted in those communities that have State correctional facilities. The population figure before and after the aforementioned census correction has been reduced by one-half of the 294 occupants of the State juvenile correctional facility located in the City of Adrian.

Fund Balance – General Fund

Governmental Funds report the difference between assets and liabilities as *fund balance*, which is divided into *reserved* and *unreserved* portions. The function of *reserved fund balance* is simply to isolate the portion of fund balance that is *not* available for the following period's budget, so that *unreserved fund balance* can serve as a measure of currently available financial resources.

The reservation of fund balance is necessary for two reasons:

- *Resources not available for spending.* Some of the assets reported in governmental funds are not available for spending in the subsequent year's budget. For example, a *long-term* loan receivable, such as an advance to another fund, is not available for *current* spending. Likewise, governments like the City of Adrian that elect to report supplies, inventories and prepaid items in governmental funds typically would report a corresponding amount of *reserved fund balance* to indicate that these amounts are not actually available for spending.
- *Legal restrictions on spending.* Fund balance is also reserved to indicate situations where a portion of fund balance is not available for new spending because of legal restrictions involving parties outside the financial reporting entity. The most common example is amounts reserved for encumbrances, which represent contracts for goods or services with outside parties that are still outstanding at the end of the period and that the City intends to honor.

Unreserved fund balance may, in turn, be subdivided into *designated* and *undesignated* portions. Designations represent management's intended use of resources and should reflect actual plans approved by the City's senior management. Expressed another way, designations reflect a government's self-imposed limitations on the use of otherwise available current financial resources.

The following schedule presents an analysis of changes in General Fund – Fund Balance between FY2003-04 and FY2004-05:

**City of Adrian
General Fund - Fund Balance**

General Fund – Fund Balance as of June 30, 2004	\$7,237,093
Reserves	159,041
Inventories and Prepayments	768,452
Encumbrances	<u>927,493</u>
Total Reserved Fund Balance as of June 30, 2004	
General Fund-Unreserved Fund Balance as of June 30, 2004	\$6,309,600
FY2004-05 Revenue and Other Financing Sources	\$10,819,757
FY2004-05 Expenditures	<u>11,494,482</u>
Revenue Over/(Under) Expenditures	(\$674,725)
(Increase)/Decrease in Inventories and Prepayments	(5,629)
(Increase)/Decrease in Encumbrance Reservation	<u>128,867</u>
General Fund-Unreserved Fund Balance as of June 30, 2005	\$5,758,113
Inventories and Prepayments	\$164,670
FY2004-05 Encumbrances and Carry Forwards	<u>639,585</u>
Total Reserved Fund Balance as of June 30, 2005	804,255
General Fund – Fund Balance as of June 30, 2005	\$6,562,368
Increase/(Decrease) in Fund Balance	<u><u>\$(674,725)</u></u>
General Fund Unreserved Fund Balance as of June 30, 2005	\$5,758,113
Proposed Designations of General Fund Unreserved Fund Balance (Acct. 393.000):	
DPW-Motor Pool - Depreciation Catch-Up	\$1,400,000
City Hall Renovations	1,300,000
Funding for FY2005-06 Budget	375,342
Property Acquisition (Pearl Street; Other)	350,000
Replace Fire Engine #1	280,000
Increase in Actuarially Determined Pension Contribution	200,000
Technology Infrastructure Upgrades (GIS, Other)	197,000
Telecommunication Upgrades	175,000
Heritage Park Farm House Renovations	58,000
CRIMP Savings	45,824
Local Grant Match	<u>25,000</u>
Total Proposed Designations	4,406,166
Undesignated Fund Balance	<u><u>\$1,351,947</u></u>

The decrease in the General Fund is mainly attributable to operating subsidies to the Dial-A-Ride (\$136,695) and the Automobile Parking System (\$123,151). In addition, one-time expenditures amounting to \$180,000 for a contract with Lenawee County Equalization to perform a reappraisal of all real and personal property in the City was included in the financial plan over a three-year time frame. Also, the following draw downs on Fund Balance were authorized by the City Commission during the year:

DPW Street Sweeper	\$113,000
GIS Strategic Plan Implementation	87,233
Maumee Streetscape Project	65,263
POLARIS Integrated Library System	53,914
IT Fund Capital Equipment	31,750
GIS Positioning System	23,160
Railroad Property Acquisition	20,000
Pearl Street Property Appraisal	19,900
Document Management System	19,740
Temp Svcs – New Financial System	13,192
Sewer Backup Claims Adjustment	<u>10,000</u>
Total	<u>\$457,152</u>

Cash Management Policies and Practices – Cash temporarily idle during the year was invested in money market accounts, certificates of deposit, and obligations of the U.S. Treasury. The following exhibit compares investments on June 30, 2005 with the prior fiscal year, reflecting an overall increase of \$445,939.

<u>Investment Type</u>	<u>FY2003-04</u>	<u>FY2004-05</u>
Money Market Accounts	\$ 6,571,266	\$ 2,245,126
Certificates of Deposit	2,363,639	2,169,507
U.S. Government Securities	<u>1,803,156</u>	<u>6,769,466</u>
	<u>\$10,738,061</u>	<u>\$11,184,099</u>

The exhibit below shows the amount of interest earnings by each type of fund during the 2004-05 fiscal year, compared with the prior fiscal year.

<u>Fund Type</u>	<u>FY2003-04</u>	<u>FY2004-05</u>
General Fund	\$119,231	\$179,080
Other Governmental Funds	51,648	57,856
Proprietary Funds	<u>95,723</u>	<u>133,400</u>
	<u>\$266,602</u>	<u>\$370,336</u>

City of Adrian investment policy specifies that all public funds held by the City, including federal funds, shall be deposited and/or invested with agencies that are recognized and authorized by Michigan statutes for that purpose. All certificates of investments of funds entrusted to the City of Adrian shall remain in the custody of the Finance Department unless otherwise authorized by the City Commission. As of June 30, 2005, all certificates of investments were in custody of the Finance Department.

Risk Management – The City is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers' compensation coverage. Both pools are under the Michigan Municipal Program sponsored and administered by the Michigan Municipal League (MML).

The City pays annual premiums to the insurance pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess of a minimum of \$1,000,000 for each specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund. Based on an historical claims analysis by the Finance Department, deductibles for Comprehensive General Liability, Personal Injury Liability and Public Officials Liability coverages have been increased from \$1,000 to \$5,000, resulting in an annual savings of almost \$30,000.

The City of Adrian has been selected as a BETA SITE by the MML for testing improved risk management assessment and reporting, scheduled for implementation in 2005.

Pension and Other Post-employment Benefits- The City of Adrian is a member of the Municipal Employees' Retirement System (MERS) of Michigan. The pension program is administered by the MERS Board under the provisions of the Municipal Employees' Retirement Act of 1984, as amended by Public Act 220 of 1996, as embodied in the MERS Plan Document. The pension program is categorized as a Defined Benefit Program with eligibility earned at age 60 with 8 or more years of credited service with annual retirement benefits for General Non-represented employees based on 2.0 percent of Final Average Compensation (FAC defined as the three consecutive year period of credited service in which the average compensation paid is highest) times years of credited service. Employee contributions for General employees amount to 3.0 percent of salary while employer contributions equate to 5.0 percent. Upon recommendation of the City Administrator, the City Commission recently improved the Defined Benefit Program by reducing the required years of credited service to achieve full vesting rights from 10 year to 8 years. Pension benefits, as well as employee and employer contributions, for Represented employees are determined in the collective bargaining process. Total Regular Employee Contribution calculated by the actuary for Fiscal Year 2005-06 amounts to \$555,684. As of December 31, 2004, the Pension Plan had Net Assets of \$35,354,281 with an Unfunded Actuarial Accrued Liability of \$4,443,829.

Fiduciary Operation- The City of Adrian has a perpetual care fund from which the interest earnings are used to maintain the cemetery. Interest earnings amounted to \$18,943 for Fiscal Year 2005 and the investment balance is \$732,459; principal is \$18,943 more than last year.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Adrian for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. This was the eighteenth consecutive year that the City has received this prestigious award.


In order to attain the Award, a government unit must publish an easily readable and efficiently organized Comprehensive Annual Financial Report with contents in conformance with program standards. Such Report must satisfy both generally accepted accounting principles (GAAP) and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA for review.

The preparation of the Comprehensive Annual Financial Report on a timely basis was made possible by the dedicated service of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in preparation of this report.

In closing, credit must also be given to the Mayor and the City Commission for their unfailing support for maintaining the highest standards of professionalism in the management of the City of Adrian's finances.

Respectfully submitted,


George A. Brown
City Administrator


Jeffrey C. Pardee, C.P.F.O.
Finance Director

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Adrian,
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



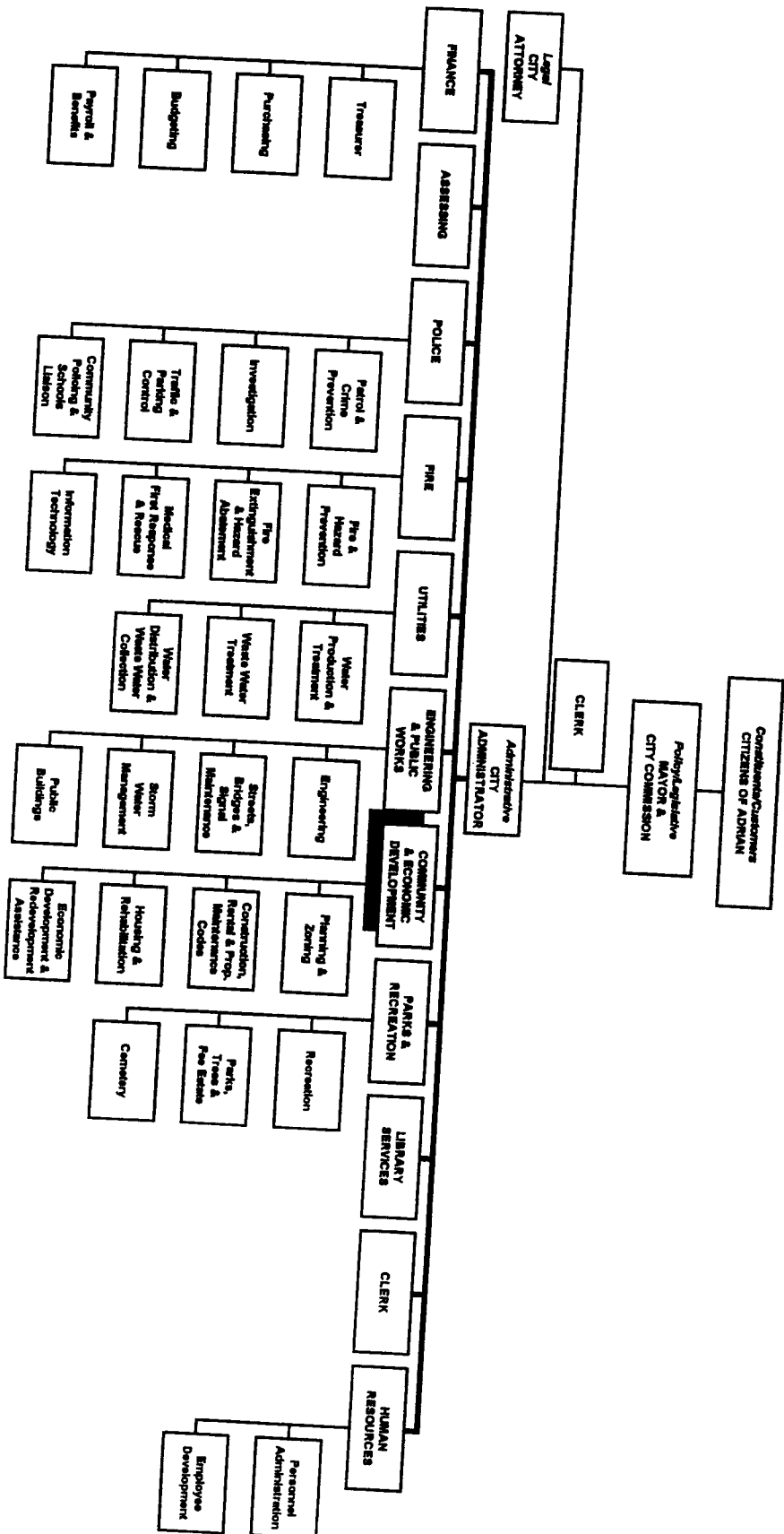
Nancy L. Ziehl

President

Jeffrey R. Emer

Executive Director

CITY OF ADRIAN ORGANIZATIONAL CHART



CITY OF ADRIAN, MICHIGAN
LIST OF PRINCIPAL OFFICIALS

JUNE 30, 2005

<u>NAME</u>	<u>TITLE</u>
Samuel Rye	Mayor
Charles E. Chase	Commissioner
Michael Clegg	Commissioner
Rhea Mills	Commissioner
Barb Mitzel	Commissioner
Gary McDowell	Commissioner
Greg Dumars	Commissioner
George A. Brown	City Administrator
Jeffrey C. Pardee	Director of Finance
Maria Irish	Assessor
Terrence Collins	Chief of Police
Paul G. Trinka	Fire Chief
Mark Gasche	Community Services Director
Jule J. Fosbender	Library Director
Keith Dersham	City Engineer
Marsha K. Rowley	City Clerk
James Caldwell	Director of Utilities
Jack Lewis	Personnel Director
Carol Konieczki	Community Development Director/Inspection

September 16, 2005

INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. We have also audited each nonmajor governmental fund and internal service fund, each nonmajor enterprise fund, and the fiduciary fund type of the City of Adrian, Michigan, as of and for the year ended June 30, 2005, as displayed in the City's basic financial statements. These financial statements are the responsibility of the City of Adrian, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information as well as each nonmajor governmental fund and the internal service fund, each nonmajor enterprise fund, and fiduciary fund type of the City of Adrian, Michigan, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

September 16, 2005

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

In accordance with *Government Auditing Standards*, we have also issued our report dated September 16, 2005 on our consideration of the City of Adrian, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and pension plan schedule on pages 26 through 39 and page 86, is not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Adrian, Michigan's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Robertson, Eaton & Owen, P.C.

September 16, 2005

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Adrian, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the City of Adrian, Michigan's basic financial statements and have issued our report thereon dated September 16, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit, we considered the City of Adrian, Michigan's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

September 16, 2005

To the Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether the City of Adrian, Michigan's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the City Commission, Departments of the State of Michigan, and federal awarding agencies and pass through entities and is not intended to be and should not be used by anyone other than these specified parties.

Robertson, Eaton & Owen, P.C.

CITY OF ADRIAN, MICHIGAN
COMPREHENSIVE ANNUAL FINANCIAL STATEMENT
Management's Discussion and Analysis
October 28, 2005

As management of the City of Adrian, we offer readers of the City of Adrian's financial statements this narrative overview and analysis of the financial activities of the City of Adrian for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-18 of this report. All amounts, unless otherwise indicated, are presented in whole dollars

Financial Highlights

- The Assets of the City of Adrian exceeded its liabilities at the close of the most recent fiscal year by \$66,469,307 (*net assets*). Of this amount, 9,164,846 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The City's total net assets decreased by (\$1,855,393). Although Charges for Services for both Governmental and Business-Type Activities increased \$657,823, related Operating Expenses for the City increased \$2,138,491. The primary reason for the overall decrease in net assets is related to a planned draw down on prior years' retained earnings in the Wastewater (\$792,290) and Water (\$133,842) Funds to payment of debt service obligations related to utility improvement projects. In addition, Governmental Activities experienced an unfavorable variance between General Revenues and Charges for Services compared to operating expenditures in the amount of \$685,358. Lastly, Expenses exceeded Charges for Services in the Dial-A-Ride Fund (\$190,695) and Auto Parking System (\$72,442).
- As of the close of the current fiscal year, the City of Adrian's governmental funds reported combined ending fund balances of \$10,438,400, a decrease of \$1,546,522 in comparison with the prior year. Following is a summary of Net Change in Fund Balance for selected Funds:

General Fund	\$ (674,725)
Local Street Fund	(575,502)
Community Development Fund	(236,274)
Endowment Trust Fund	<u>(46,855)</u>
Total	<u>\$(1,533,356)</u>

The decrease in the General Fund is mainly attributable to operating subsidies to the Dial-A-Ride (\$136,695) and the Automobile Parking System (\$123,151). In addition, one-time expenditures amounting to \$180,000 for a contract with Lenawee County Equalization to perform a reappraisal of all real and personal property in the City was included in the financial plan over a three-year time frame. Also, the following draw downs on Fund Balance were authorized by the City Commission during the year:

DPW Street Sweeper	\$113,000
GIS Strategic Plan Implementation	87,233
Maumee Streetscape Project	65,263
POLARIS Integrated Library System	53,914

IT Fund Capital Equipment	31,750
GIS Positioning System	23,160
Railroad Property Acquisition	20,000
Pearl Street Property Appraisal	19,900
Document Management System	19,740
Temp Svcs – New Financial System	13,192
Sewer Backup Claims Adjustment	10,000
Total	<u>\$457,152</u>

The Local Street Fund reflects a planned use of Prior Years' Revenue to fund the intensive road improvement program. The Community Development Fund reflects the federal requirement to use available proceeds from the revolving loan program before utilizing Community Development Block Grant Funds. The Endowment Trust Fund reflects the use of invested funds for Kiwanis Trail Improvements and the Downtown Façade Program.

Approximately eighty (80%) percent of the total fund balance, \$8,314,310, is available for spending at the City Commission's discretion (*unreserved fund balance*).

- At the end of the current fiscal year, unreserved fund balance for the general fund was \$5,758,113 or fifty (50%) percent of total general fund expenditures. Of this amount, management has designated \$4,406,166 for the following specific projects, leaving \$1,351,947 in Unreserved/Undesignated Fund Balance.

1) DPW-Motor Pool – Depreciation Catch-UP	\$1,400,000
2) City Hall Renovations	1,300,000
3) Funding for FY2005-06 Budget	375,342
4) Property Acquisitions and Options (Pearl Street)	350,000
5) Replace Fire Engine #1	280,000
6) Increase in Actuarially Determined Pension Contr.	200,000
7) Technology Infrastructure Upgrades (GIS, Other)	197,000
8) Telecommunication Upgrades	175,000
9) Heritage Park Farm House Renovations	58,000
10) CRIMPT Savings	45,824
11) Local Grant Match	25,000
Total	<u>\$4,406,166</u>

- The City of Adrian's total debt burden decreased by \$913,448 or five and one-half (5.5%) percent during the current fiscal year. General Obligation Debt decreased \$343,448, from \$2,155,808 to \$1,812,360, due to retirement of the Auto Parking Bonds (\$50,000) and debt service payments on Storm Water Utility Bonds (\$95,000) and Parks & Recreation Installment Purchase Agreements (\$198,448) for acquisition of the Witt Property and Marvin Farm. Outstanding Revenue Bond Debt decreased by \$570,000, from \$14,585,000 to \$14,015,000 due to debt service payments on Sewer Revolving Fund Loan (\$350,000) and Drinking Water Revolving Fund Loan (\$220,000). Overall, outstanding debt as a percent of Personal Income decreased from 3.5% to 3.3%. In terms of Per Capita debt burden, the decrease amounted to \$41, decreasing from \$754 per person to \$712 per person.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Adrian's basic financial statements. The City of Adrian's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the City of Adrian's finances, in a manner similar to private-sector business.

The *Statement of Net Assets* (Page 40) presents information on all of the City of Adrian's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City of Adrian is improving or deteriorating.

The *Statement of Activities* (Page 42) presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Adrian that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Adrian include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Adrian include water and sewer operations and automobile parking activities.

The government-wide financial statements include not only the City of Adrian itself (known as the *primary government*), but also a legally separate Downtown Development Authority and a legally separate Local Development Finance Authority for which the City of Adrian is financially accountable. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The Dial-A-Ride transportation system and OMNI drug enforcement unit function for all practical purposes as departments of the City of Adrian and, therefore, have been included as an integral part of the primary government. The government-wide financial statements can be found on pages 40-43 of this report.

Fund Financial Statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Adrian, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City of Adrian can be divided into three categories: governmental funds, proprietary funds and fiduciary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City of Adrian maintains ten individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, major streets and local street funds, and the Fee and Public-Purpose Fund, all four of which are considered to be major funds. Data from the other six governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Adrian adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget. The basic governmental fund statements can be found on pages 44-47 of this report.

Proprietary Funds. There are traditionally two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Adrian uses enterprise funds to account for its water and sewer operations and for the Automobile Parking and Dial-A-Ride Systems, as well as the Capital Projects Revolving Fund and Storm Water Utility Fund. *Internal service funds* are an accounting device normally used to accumulate and allocate costs internally among the City of Adrian's various functions. The Information Technology Fund was established with the implementation of the FY2004-05 Budget.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water System and the Wastewater System, both of which are considered to be major funds of the City of Adrian. Conversely, the Capital Projects Revolving Fund, Dial-A-Ride, Storm Water Utility and the Automobile Parking System funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for these enterprise funds is provided in the form of *combining statements* elsewhere in this report. The basic proprietary fund financial statements can be found on pages 54-58 of this report.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Adrian's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 59 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 60-85 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Adrian's progress in funding its obligation to provide pension benefits to its employees through employer contributions and required employee contributions. Required supplementary information can be found on page 86 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and enterprise funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 87-129 of this report.

The Schedule of Indebtedness can be found on pages 130-137.

Economic Condition Reporting: The Statistical Section

The Governmental Accounting Standards Board (GASB) has issued Statement 44 regarding Economic Condition Reporting for General Purpose Local Governments. Although the provisions of Statement 44 are effective for Statistical Sections prepared for periods beginning after June 15, 2005, the City of Adrian seeks to meet the intent of this Statement through early adoption and by improving the understandability and usefulness of the Statistical Section information by addressing traditional comparability issues that have developed in practice and by adding information from the new financial reporting model for state and local governments required by Statement 34.

Statement 44 establishes the objectives of the Statistical Section and the five categories of information it contains – financial trends information, revenue capacity information, debt capacity information, demographic and economic information, and operating information.

This part of the City of Adrian's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Contents

Page

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Exhibit B-1:	Net Assets by Component, Last Three Years	138
Exhibit B-2:	Changes in Net Assets, Last Three Years	139-140
Exhibit B-3:	Fund Balances, Governmental Funds, Last Ten Years	141
Exhibit B-4:	Changes in Fund Balances, Governmental Funds (10 Yrs)	142
Exhibit B-5:	Program Revenues by Function/Program, Last Three Years	143
Exhibit B-6:	Tax Revenues by Source-Govt'l Fund, Last Ten Years	144

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

Exhibit C-1:	Assessed Value and Actual Value of Taxable Property (Last Ten Fiscal Years)	145
Exhibit C-2:	Direct and Overlapping Property Tax Rates (Last Ten Fiscal Years)	146
Exhibit C-3:	Principal Property Tax Payers (Current Year and Nine Years Ago)	147
Exhibit C-4:	Property Tax Levies and Collections (Last Ten Fiscal Years)	148

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Exhibit D-1:	Ratios of Outstanding Debt by Type (Last Ten Fiscal Years)	149
Exhibit D-2:	Ratios of General Bonded Debt Outstanding (Last Ten Fiscal Years)	150
Exhibit D-3:	Direct and Overlapping Government Activities Debt (as of June 30, 2005)	151
Exhibit D-4:	Legal Debt Margin Information (Last Ten Fiscal Years)	152
Exhibit D-5:	Pledged-Revenue Coverage (Last Ten Fiscal Years)	153

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Exhibit E-1:	Demographic and Economic Statistics (Last Ten Calendar Years)	154
Exhibit E-2:	Principal Employers (Current Year and Nine Years Ago)	155

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

Exhibit F-1:	Full-Time Equivalent City Government Employees by Function/Program (Last Ten Fiscal Years)	156
Exhibit F-2:	Operating Indicators by Function/Program (Last Ten Fiscal Years)	157
Exhibit F-3:	Capital Asset Statistics by Function/Program (Last Ten Fiscal Years)	158

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Adrian, assets exceeded liabilities by \$66,469,307 at the close of the most recent fiscal year.

By far the largest portion of the City of Adrian's net assets (78 percent) reflects its investment in capital assets (i.e., land, buildings, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Adrian uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Adrian's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to pay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

CITY OF ADRIAN'S NET ASSETS

		FY 2005			
		Governmental	Business-Type		
		Activities	Activities	FY2005	FY2004
Current and Assets	Other	\$11,820,933	\$4,835,909	\$16,656,842	\$19,262,517
Capital Assets		25,638,608	42,237,181	67,875,789	66,844,584
Total Assets		<u>\$37,459,541</u>	<u>\$47,073,090</u>	<u>\$84,532,631</u>	<u>\$86,107,101</u>
Long-Term Outstanding Liabilities		\$1,875,989	\$14,326,853	\$16,202,842	\$621,459
Other Liabilities		1,313,098	547,384	1,860,482	17,160,942
Total Liabilities		<u>\$3,189,087</u>	<u>\$14,874,237</u>	<u>\$18,063,324</u>	<u>\$17,782,401</u>
Net Assets:					
Invested in Capital Assets, net of					
Related Debt		\$24,026,248	\$28,022,181	\$52,048,429	\$50,320,801
Restricted		3,876,032	1,380,000	5,256,032	6,253,073
Unrestricted		6,368,174	2,796,672	9,164,846	11,750,826
Total Net Assets		<u>\$34,270,454</u>	<u>\$32,198,853</u>	<u>\$66,469,307</u>	<u>\$68,324,700</u>

An additional portion of the City of Adrian's net assets, seven and nine-tenths (7.9%) percent, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* (\$9,164,846) may be used to meet the City's ongoing obligations to citizens and creditors.

Governmental Activities. As explained earlier under Financial Highlights, the City's total net assets decreased by (\$1,855,393). A summary of Governmental Activities showing this decrease, as well as a comparison with prior year's actual, follows:

		CITY OF ADRIAN STATEMENT ACTIVITIES FY2005		OF	
		Governmental	Business-	FY2005	FY2004
		Activities	Type		
Expenses	(Over)/Under		Activities		
Revenues					
Functions/Programs:					
General Government		(\$1,541,333)		(\$1,541,333)	(\$1,288,721)
Public Safety		(4,244,002)		(4,244,002)	(4,248,675)
Public Works		(783,994)		(783,994)	(1,074,209)
Culture & Recreation		(890,390)		(890,390)	(760,884)
Other Services		(1,357,245)		(1,357,245)	(1,091,531)
Community/Economic					
Development		(133,709)		(133,709)	(26,930)
Highways, Streets & Bridges		(2,360,736)		(2,360,736)	(1,800,935)
Interest on Long-Term Debt		(69,369)		(69,369)	(78,673)
Wastewater System			(792,290)	(792,290)	(260,786)
Water System			(133,842)	(133,842)	347,740
Dial-A-Ride System			(190,695)	(190,695)	(121,919)
Automobile Parking System			(72,442)	(72,442)	(1,154)
Storm Water Utility			19,234	19,234	56,114
Total Activities		(\$11,380,778)	(\$1,170,035)	(\$12,550,813)	(\$10,350,563)
General Revenues:					
Property Taxes				\$6,528,844	\$6,041,046
Sales Tax				2,435,992	2,551,255
Motor Vehicle Fuel Tax				1,347,902	1,337,898
Grants and Contributions				12,346	11,008
Unrestricted Investment Earnings				370,336	266,602
Transfers				0	12,000
Total General Revenues				\$10,695,420	\$10,219,809
Change in Net Assets				(\$1,855,393)	(\$130,754)
Net Assets - Beginning of the Year				\$68,324,700	\$68,455,454
Net Assets - End of the Year				<u>\$66,469,307</u>	<u>\$68,324,700</u>

Financial Analysis of the Government's Funds

As noted earlier, the City of Adrian uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City of Adrian's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. As of the end of the current fiscal year, the City of Adrian's governmental funds reported combined unreserved fund balances of \$8,314,310, a decrease of \$734,725 in comparison with the prior year. The net decrease is mainly attributable to Community Development's use of Revolving Loan Fund monies prior to drawing down on CDBG Grant Funds (\$236,274), as well as General Fund operating subsidies to the Dial-A-Ride (\$136,695) and the Automobile Parking System (\$123,151). Although outstanding obligations in the form of encumbered purchase orders were down \$744,446, actual expenditures increased \$677,169 over the prior year. . Approximately eighty (80%) percent of the total fund balance, \$10,438,400, is *available for spending* at the City Commission's discretion (*unreserved fund balance*). The remainder of the fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$817,532), 2) for inventories and prepayments (\$172,169), 3) to generate income to pay for the perpetual care of the municipal cemetery (\$753,085), 4) debt service on loans (\$229,261) or 5) for a variety of other restricted purposes (\$152,043).

The General Fund is the chief operating fund of the City of Adrian. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,758,113, while total fund balance reached \$6,562,368. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents fifty (50%) percent of the total General Fund expenditures, while total fund balance represents fifty-seven (57%) percent of that same amount.

The fund balance of the City of Adrian's General Fund decreased by (\$674,725) during the current fiscal year. The key factor in this decrease is the General Fund operating subsidies to the Dial-A-Ride (\$136,695) and the Automobile Parking System (\$123,151), as well as a reduction in State Revenue Sharing (\$107,828) and increased expenditures for Public Safety, Police (\$134,674) and Fire (\$138,239).

Other Governmental Funds include Major Streets, Local Streets, and Fee & Public Purpose Funds, as well as other minor funds, such as Perpetual Care and Endowment Funds. Collectively, their fund balances decreased by \$871,798, to \$3,876,032. The primary contributing factors were planned use of prior years' revenues for an intensified road improvement program for local streets (\$575,502) and Community Development's use of Revolving Loan Fund monies prior to drawing down on CDBG Grant Funds (\$236,274).

Proprietary Funds. The City of Adrian's Proprietary Funds provide the same type of information found in the government-wide financial statements, but in more detail.

Although Total Net Assets for the Water Fund decreased by \$115,585, declining from \$11,358,024 to \$11,242,439, Unrestricted Net Assets at the end of the year amounted to \$544,801, a decrease of \$851,599 attributable to a planned draw down on Retained Earnings to cover increased debt service expenses related to implementation of a Water System Improvement Project Plan, thereby minimizing user rate increases.

Unrestricted net assets of the Wastewater Fund at the end of the year amounted to \$1,559,210, a decrease of \$1,319,995 attributable to a planned draw down on Retained Earnings to cover increased debt service expenses related to implementation of a Wastewater System Improvement Project Plan, thereby minimizing user rate increases. The total growth in all other Proprietary Funds was \$73,817, including Storm-Water Utility, Automobile Parking System, Dial-A-Ride System and Capital Projects Revolving Fund. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Adrian's business-type activities.

General Fund Budgetary Highlights

Differences in the original budget and the final amended budget amounted to \$1,537,226 increase in appropriations and can be briefly summarized as follows:

FY2004-05 Encumbrances/Carry Forwards	\$ 768,453
FY2004-05 Budget Amendments	179,500
DPW Street Sweeper	113,000
GIS Strategic Plan Implementation	87,233
Contribution Dial-A-Ride	72,000
Maumee Streetscape Project	65,263
POLARIS Integrated Library System	53,914
Create Deputy Police Chief Position	46,799
IT Fund Capital Equipment	31,750
GIS Positioning System	23,160
Railroad Property Acquisition	20,000
Pearl Street Property Appraisal	19,900
Document Management System	19,740
Temp Services – New Financial System	13,192
Other	13,332
Sewer Backup Claims Adjustment	10,000
Total	<u>\$1,537,226</u>

The above listed appropriations were budgeted from available fund balance. During the year, however, revenues exceeded budgetary estimates and expenses were less than budgetary estimates, thus reducing the need to draw upon existing fund balance to \$674,725.

Significant variances between the Amended Budget and Actual Revenue and Expenditures are identified and explained as follows:

Revenue:

- Licenses & Permits favorable \$91,628 due to triennial requirement for rental housing registration.
- Intergovernmental Revenue unfavorable \$45,788 due to reduction in State Revenue Sharing.
- Miscellaneous favorable \$97,963 reflects partial refund of Hospitalization insurance premium based on experience.

Expenditures:

- Finance Department favorable \$53,311 due to lower than anticipated cost of new financial system.
- City Assessor favorable \$88,659 due to lower than anticipated contract cost for Reappraisal Project.
- Human Resources favorable \$40,622 due to lower than anticipated legal fees, consultant fees, tuition reimbursement and safety training.
- Cemetery favorable \$48,403 due to lower than anticipated hospitalization insurance, vehicle maintenance, and capital equipment outlays.
- Police Department favorable \$145,440 due to lower than anticipated hospitalization insurance, workers compensation, office equipment maintenance, in-service training and capital equipment outlays, partially offset by greater than anticipated expense for retirement contribution and unemployment compensation, as well as contract services and uniform expense.
- Fire Department favorable \$45,568 due to lower than anticipated hospitalization insurance, overtime and capital equipment outlays, partially offset by longevity and sick pay, retirement contribution and unemployment compensation.
- Culture and Recreation favorable \$264,904 due to less than anticipated expenditures for Recreation Department Capital Improvements, as well as hospitalization insurance, contract services, worke
- Planning Commission favorable \$45,578 due to lower than anticipated expenses for consultants.
- Beautification – Parks (Fee) favorable \$633,138 due to postponement of Burr Pond Park Renovation Project until the subsequent fiscal year.
- Park Capital favorable \$73,122 due to lower than anticipated expenses for contract services.
- Other Projects favorable \$68,440 due to reservation of cost savings under the Cost Reduction Incentive Management Program (CRIMP).
- Other favorable \$34,769 due to unallocated Contingency funds.

Other Financing Sources (Uses):

- Transfers In unfavorable \$544,813 due to to postponement of Burr Pond Renovation Project to subsequent fiscal year.

Capital Asset and Debt Administration

Capital Assets. The City of Adrian's investment in capital assets for its governmental and business-type activities as of June 30, 2005 amounts to \$67,875,789 (net of accumulated depreciation), representing a year-to-year increase of \$1,031,205. Although Construction in Progress decreased by \$14,919,647, the value of Utility Systems increased by \$15,971,463, primarily related to Sewer and Water System improvements.. This investment in capital assets includes land, buildings and improvements, machinery and equipment, and park facilities, as well as roads, highways and bridges, and water/wastewater infrastructure. The total increase in the City of Adrian's investment in capital assets for the current fiscal year was 1.5 percent (a 0.2 percent increase for governmental activities and a 2.3 percent increase for business-type activities).

CITY OF ADRIAN'S CAPITAL ASSETS (net of depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Land	\$7,510,774	\$7,510,774	\$904,592	\$904,592	\$8,415,366	\$8,415,366
Land Improvements	5,619,942	5,590,458	1,233,698	1,266,207	6,853,640	6,856,665
Buildings and Systems	1,904,910	2,053,529	0	0	1,904,910	2,053,529
Utility Systems	0	0	38,636,014	22,664,551	38,636,014	22,664,551
Machinery & Equipment	5,356,539	4,949,753	199,544	254,195	5,556,083	5,203,948
Infrastructure	5,246,443	5,467,545	0	0	5,246,443	5,467,545
Construction -In-Progress	0	0	1,263,333	16,182,980	1,263,333	16,182,980
Total Capital Assets	\$25,638,608	\$25,572,059	\$42,237,181	\$41,272,525	\$67,875,789	\$66,844,584

Long-Term Liabilities. At the end of the current fiscal year, the City of Adrian had total long-term liabilities of \$16,202,842. Of this amount, \$200,000 comprises debt backed by the full faith and credit of the City and \$14,015,000 of the debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds). Other long-term liabilities include installment purchases through the Bank of Lenawee of \$1,612,360 for purchases of park property in Adrian and Madison Townships (since annexed to the City), as well as Accrued Sick and Vacation Compensation of \$375,482. The City of Adrian's long-term liabilities decreased by \$958,100 during the current fiscal year. The key factors contributing to this reduction was regularly scheduled debt service payments and a \$44,652 reduction in Accrued Sick and Vacation Compensation due to retirement of long-term employees.

CITY OF ADRIAN'S LONG-TERM LIABILITIES
General Obligation and Revenue Bonds
Installment Purchase Obligations
Accrued Sick and Vacation

		Governmental Activities		Business-Type Activities		Total	Total
		2005	2004	2005	2004	2005	2004
General Bonds	Obligation	\$0	\$0	\$200,000	\$345,000	\$200,000	\$345,000
Revenue Bonds		0	0	14,015,000	14,585,000	14,015,000	14,585,000
Installment Purchase		1,612,360	1,810,808	0	0	1,612,360	1,810,808
Accrued Sick & Vacation		263,629	309,543	111,853	110,591	375,482	420,134
Total	Long-Term Liabilities	\$1,875,989	\$2,120,351	\$14,326,853	\$15,040,591	\$16,202,842	\$17,160,942

On June 30, 2004, the City of Adrian had a number of debt issues outstanding. These issues consisted of general obligation bonds and revenue bonds. The City has maintained an A1 bond rating from Moody's Investor Services and an A rating from Standard & Poor's on general obligation issues. Under current State statutes, the City's general obligation outstanding debt amount is subject to a legal limitation based on 10 percent of total assessed value of real and personal property. As of June 30, 2005 the City's net general obligation bond and installment debt of \$1,812,360 was well below the legal limit of \$41,029,451 and debt per capita equaled \$81.58, a year-to-year decrease of \$15.46. During the year, the City issued no new General Obligation bonds.

Additional information on the City of Adrian's long-term debt can be found in Note 3 on page 78 of this report.

Economic Factors and Next Year's Budgets and Rates

- The FY2005-06 Budget Recommendation was submitted at a time when economic conditions were improving and corporate earnings were moving in the right direction.
- The unemployment rate for Lenawee County for June is 6.4 percent, which is a decrease from a rate of 7.8 percent a year ago. This compares with the State's average unemployment rate of 6.7 percent and the national average rate of 4.9 percent.
- Inflationary trends in the region compare favorably with national indices.

All of these factors were considered in preparing the City of Adrian's budget for the 2005-06 fiscal year. Also during the current fiscal year, unreserved fund balance in the General Fund stands at \$5,758,113 (equivalent to six months worth of expenditures at current spending levels). The City of Adrian has appropriated \$375,342 of the Unrestricted Fund Balance amount for spending in the 200506fiscal year budget, 201,176 less than last year. It is intended that the use of available fund balance will avoid the need to raise taxes for General Fund operations.

Water and Sewer Rates are anticipated to increase, reflecting the need to fund increased debt service for infrastructure improvements to both systems, as well as compensating for the anticipated sales volume decrease attributable to Madison Township's construction of a redundant waste water treatment system that will divert flows from the Gus Harrison State Correctional Facility.

Requests for Information

This financial report is designed to provide a general overview of the City of Adrian's finances for all those with an interest in the City's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Office of the Finance Director, 100 E. Church Street, Adrian, Michigan 49221 or call 517-264-4824.

CITY OF ADRIAN, MICHIGAN
STATEMENT OF NET ASSETS
June 30, 2005
With Comparative Totals for June 30, 2004

	PRIMARY GOVERNMENT			COMPONENT UNITS		
	Governmental Activities	Business-type Activities	Totals	Downtown Development Authority	Local Development Finance Authority	
ASSETS:						
Cash and cash equivalents	\$ 1,880,984	\$ 906,332	\$ 2,787,316	\$ 740,869	\$ 47,116	
Investments	7,719,892	1,205,571	8,925,463	13,949		
Receivables (net of allowance for uncollectibles)	653,340	1,220,573	1,873,913			
Due from component units	11,604		11,604			
Due from other governments	310,311	71,838	382,149			
Internal balances	190,183	(190,183)		292		
Inventories	130,315	120,650	250,965			
Prepaid expense	41,854	12,532	54,386			
Restricted assets:						
Temporarily restricted:						
Cash and cash equivalents						
Investments						
DWRF Bond receivable		102,504	102,504			
Permanently restricted:		1,386,092	1,386,092			
Cash and cash equivalents						
Investments	23,856	23,856	47,712			
Capital Assets (Net of accumulated depreciation):	858,594	858,594	1,717,188			
Land						
Land improvements						
Buildings	7,510,774	904,592	8,415,366			
Utility systems	5,619,942	1,233,698	6,853,640			
Machinery, equipment, and furnishings	1,904,910	38,636,014	39,540,924	739,494		
Infrastructure						
Construction in progress	5,356,539	199,544	5,556,083			791,200
	5,246,443		5,246,443			
		1,263,333	1,263,333			
Total assets	\$ 37,459,541	\$ 47,073,090	\$ 84,532,631	\$ 1,494,604	\$ 838,316	

	<u>PRIMARY GOVERNMENT</u>			<u>COMPONENT UNITS</u>		
	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Totals</u>	<u>Downtown Development Authority</u>	<u>Local Development Finance Authority</u>	
LIABILITIES:						
Accounts payable and other current liabilities	\$ 1,206,690	\$ 432,439	\$ 1,639,129	\$ 160,984	\$	
Accrued interest payable	69,369		69,369	50,055		
Due to primary government				11,604		
Due to other governments						
Unearned revenue	37,039	6,349	6,349			65,500
Liabilities paid from restricted assets						
Noncurrent liabilities:						
Due within one year	386,987					
Due in more than one year	1,489,002	108,596	108,596			
		680,000	1,066,987			
		13,646,853	15,135,855	85,000		
				490,000		764,100
Total liabilities	3,189,087	14,874,237	18,063,324	797,643		829,600
NET ASSETS:						
Invested in capital assets, net	24,026,248	28,022,181	52,048,429	164,494		27,100
related debt						
Restricted for:						
Public safety	163,172		163,172			
Community/economic development	635,107		635,107			
Highways and streets	2,019,722		2,019,722			
Debt service						
Endowment		1,380,000	1,380,000	3,344		47,116
Perpetual care	152,043		152,043			
Other purposes	760,584		760,584			
Unrestricted	145,404		145,404			
	6,368,174	2,796,672	9,164,846	80,670		
				448,453		(65,500)
Total net assets	\$ 34,270,454	\$ 32,198,853	\$ 66,469,307	\$ 696,961	\$ 8,716	

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

PROGRAM REVENUES

Functions/Programs	Expenses	Charges For Services	Operating Grants And Contributions	Capital Grants And Contributions
Primary Government:				
Governmental activities:				
General government	\$ 2,655,280	\$ 1,082,559	\$	\$ 31,388
Public safety	4,693,255	368,149	81,104	
Public works	784,985	991		
Culture and recreation	2,188,354	534,963	763,001	
Other services	1,631,127	273,882		
Community/economic development	278,898	5,543	123,000	16,646
Highways, streets, and bridges	2,513,058	62,788	64,590	24,944
Interest on long term debt	69,369			
Total governmental activities	<u>14,814,326</u>	<u>2,328,875</u>	<u>1,031,695</u>	<u>72,978</u>
Business-type Activities:				
Wastewater system	3,465,380	2,673,090		
Water system	3,034,751	2,900,909		
Dial-A-Ride system	490,660	77,507		
Automobile parking system	152,681	80,239	222,458	
Storm water utility	344,579	363,813		
Total business-type activities	<u>7,488,051</u>	<u>6,095,558</u>	<u>222,458</u>	<u>-</u>
Total primary government	<u>\$ 22,302,377</u>	<u>\$ 8,424,433</u>	<u>\$ 1,254,153</u>	<u>\$ 72,978</u>
Component Units:				
Downtown Development Authority	\$ 251,308	\$	\$	\$
Local Development Finance Authority	88,380			
Total component units	<u>\$ 339,688</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
General Revenues:				
Property taxes				
Sales tax				
Motor vehicle fuel tax				
Grants and contributions not restricted to specific programs				
Unrestricted investment earnings				
Transfers				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning of year				
Adjustment - for prior year property taxes (Note 3.H.)				
Net assets - end of year				

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF ACTIVITIES

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS					
PRIMARY GOVERNMENT				COMPONENT UNITS	
Governmental Activities	Business-type Activities	Totals		Downtown Development Authority	Local Development Finance Authority
		2005	2004		
\$ (1,541,333)	\$	\$ (1,541,333)	\$ (1,288,721)	\$	\$
(4,244,002)		(4,244,002)	(4,248,675)		
(783,994)		(783,994)	(1,074,209)		
(890,390)		(890,390)	(760,884)		
(1,357,245)		(1,357,245)	(1,091,531)		
(133,709)		(133,709)	(26,930)		
(2,360,736)		(2,360,736)	(1,800,935)		
(69,369)		(69,369)	(78,673)		
<u>(11,380,778)</u>	<u>-</u>	<u>(11,380,778)</u>	<u>(10,370,558)</u>	<u>-</u>	<u>-</u>
	(792,290)	(792,290)	(260,786)		
	(133,842)	(133,842)	347,740		
	(190,695)	(190,695)	(121,919)		
	(72,442)	(72,442)	(1,154)		
	<u>19,234</u>	<u>19,234</u>	<u>56,114</u>		
<u>-</u>	<u>(1,170,035)</u>	<u>(1,170,035)</u>	<u>19,995</u>	<u>-</u>	<u>-</u>
<u>\$ (11,380,778)</u>	<u>\$ (1,170,035)</u>	<u>\$ (12,550,813)</u>	<u>\$ (10,350,563)</u>	<u>\$ -</u>	<u>\$ -</u>
\$	\$	\$	\$	\$ (251,308)	\$
					(88,380)
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (251,308)</u>	<u>\$ (88,380)</u>
\$ 6,528,844	\$	\$ 6,528,844	\$ 6,041,046	\$ 351,664	\$ 95,380
2,435,992		2,435,992	2,551,255		
1,347,902		1,347,902	1,337,898		
12,346		12,346	23,008	15,000	
236,936	133,400	370,336	266,602	4,360	200
<u>(276,246)</u>	<u>276,246</u>				
<u>10,285,774</u>	<u>409,646</u>	<u>10,695,420</u>	<u>10,219,809</u>	<u>371,024</u>	<u>95,580</u>
(1,095,004)	(760,389)	(1,855,393)	(130,754)	119,716	7,200
				(154,916)	
<u>35,365,458</u>	<u>32,959,242</u>	<u>68,324,700</u>	<u>68,455,454</u>	<u>732,161</u>	<u>1,516</u>
<u>\$ 34,270,454</u>	<u>\$ 32,198,853</u>	<u>\$ 66,469,307</u>	<u>\$ 68,324,700</u>	<u>\$ 696,961</u>	<u>\$ 8,716</u>

CITY OF ADRIAN, MICHIGAN

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

ASSETS	General	Major Streets	Local Streets	Fee And Public Purpose	Other Governmental Funds	Totals	
						2005	2004
Cash and cash equivalents	\$ 71,557	\$ 833,854	\$ 336,012	\$ 14,992	\$ 593,960	\$ 1,850,375	\$ 2,164,918
Investments at cost	6,314,925	1,219,111		145,455	898,995	8,578,486	8,808,914
Receivables:							
Accounts	104,891	15,992	64,590	159,656	63,389	408,518	439,212
Loans					229,261	229,261	256,888
Due from other funds	466,093				26,778	492,871	1,062,643
Due from component units	700					700	816
Due from other governments	310,311					310,311	335,513
Inventories:							
Land held for resale, at cost							
Supplies at cost	122,816				7,499	7,499	7,499
Prepaid cost	41,854					122,816	123,505
Total assets	\$ 7,433,147	\$ 2,068,957	\$ 400,602	\$ 320,103	\$ 1,819,882	\$ 12,042,691	\$ 13,235,444
LIABILITIES AND FUND BALANCE							
Liabilities:							
Vouchers payable	\$ 366,827	\$ 89,744	\$ 273,809	\$ 223	\$ 12,085	\$ 742,688	\$ 117,853
Accrued liabilities	420,026	4,468	5,346		6,474	436,314	163,420
Due to other funds	60,025	59,555	41,635	161,338	65,697	388,250	924,365
Unearned revenue	23,901			13,138		37,039	44,883
Total liabilities	870,779	153,767	320,790	174,699	84,256	1,604,291	1,250,521
Fund Balances:							
Reserved For:							
Perpetual care							
Endowment							
Loans							
Inventories and prepayments	164,670				753,085	753,085	751,584
Encumbrances	639,585				152,043	152,043	198,898
Unreserved, Reported In:							
General Fund - Designated	4,406,166				229,261	229,261	256,888
General Fund - Undesignated	1,351,947				7,499	172,169	166,540
Special Revenue Funds - Undesignated		177,902			45	817,532	1,561,978
Total fund balances	6,562,368	1,737,288	79,812	145,404	593,693	4,406,166	4,516,268
Total liabilities and fund balance	\$ 7,433,147	\$ 2,068,957	\$ 400,602	\$ 320,103	\$ 1,819,882	\$ 12,042,691	\$ 13,235,444

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**RECONCILIATIONS OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS**

June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	\$ 25,638,608	\$ 25,572,059
Personal property taxes receivable are not expected to be collected in the current period and, therefore, deferred in governmental funds (presented net of allowance for uncollectibles).	15,000	7,500
Accrued interest payable on long term debt is recognized in governmental funds when paid and not when accrued.	(69,369)	(78,673)
Long-term portion of accrued sick and vacation pay liability are not due and payable in the current period and, therefore, are not reported in the governmental funds.	(263,629)	(309,543)
Bond and loan indebtedness are recognized in the governmental funds when paid and not when accrued.	(1,612,360)	(1,810,808)
Internal Service Fund (Information Technology Fund) is used by management to charge the costs of management information systems to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets.	<u>123,804</u>	<u> </u>
Net differences	23,832,054	23,380,535
Total fund balance in governmental funds	<u>10,438,400</u>	<u>11,984,923</u>
Total net assets of governmental activities	<u>\$ 34,270,454</u>	<u>\$ 35,365,458</u>

nds	2004	964,834	72,172
		74,212	44,000
		184,207	12,372
		89,145	72,317
		988,935	12,504
		65,345	15,400
		314,117	44,444
		336,021	39,583
		170,879	17,538
		282,212	0,330
		222,348	7,905
		30,170	
		<u>112,425</u>	

CITY OF ADRIAN, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u> <u>2005</u>	<u>2004</u>
Revenues:							
Taxes	\$ 6,028,639	\$	\$	\$	\$ 404,941	\$ 6,433,580	\$ 5,964,834
Other tax related revenue	87,764					87,764	74,212
Licenses and permits	262,278					262,278	184,207
Intergovernmental - Federal	11,941				1,200	13,141	89,145
Intergovernmental - State	2,489,203	1,065,830	403,315			3,958,348	3,988,935
Charges for services	63,631					63,631	65,345
Use and admission charges	336,219					336,219	314,117
Fines and fees	324,033					324,033	326,021
Investment earnings	179,080	19,700		918	37,238	236,936	170,879
Fee Trust - for beautification purposes				763,001		763,001	1,282,212
Other	576,593		24,944	6,136	223,784	806,513	1,322,348
Special assessments					15,446	24,944	130,170
Contribution from DDA	31,388					46,834	
Total revenues	10,390,762	1,085,530	428,252	770,055	682,609	13,357,222	13,912,425
Expenditures:							
Current:							
General government	2,092,370			96,921		2,189,291	1,772,172
Public safety	4,753,185				65,246	4,818,431	4,544,000
Public works	1,098,841					1,098,841	912,372
Culture and recreation	2,260,361					2,260,361	2,272,317
Other services	1,012,604				49,891	1,062,495	1,412,504
Community/Economic Development		1,164,394	1,480,292		276,273	2,644,686	615,400
Highways, streets, and bridges							2,144,444
Debt Service:							
Principal retirement	198,448					198,448	189,583
Interest and fiscal charges	78,673					78,673	87,538
Total expenditures	11,494,482	1,164,394	1,480,292	96,921	391,410	14,627,499	13,950,330
Excess (deficiency) of revenues over (under) expenditures	(1,103,713)	(78,864)	(1,052,033)	673,134	291,199	(1,270,277)	(37,905)

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Other Governmental Funds</u>	<u>Totals Governmental Funds</u>
					<u>2005</u>	<u>2004</u>
Other financing sources (uses):						
Transfers in	\$ 774,604	\$ 97,763	\$ 509,031	\$	\$ 1,385,504	\$ 2,364,135
Transfers out	<u>(345,616)</u>	<u>(115,900)</u>	<u>(32,500)</u>	<u>(672,215)</u>	<u>(1,661,750)</u>	<u>(2,521,262)</u>
Total other financing sources (uses)	<u>428,988</u>	<u>(18,137)</u>	<u>476,531</u>	<u>(672,215)</u>	<u>(276,246)</u>	<u>(157,127)</u>
Net change in fund balance	(674,725)	(97,001)	(575,502)	919	(1,546,523)	(195,032)
Fund balances at beginning of year	<u>7,237,093</u>	<u>2,012,191</u>	<u>655,314</u>	<u>144,485</u>	<u>11,984,923</u>	<u>12,179,955</u>
Fund balances at end of year	<u>\$ 6,562,368</u>	<u>\$ 1,915,190</u>	<u>\$ 79,812</u>	<u>\$ 145,404</u>	<u>\$ 10,438,400</u>	<u>\$ 11,984,923</u>

CITY OF ADRIAN, MICHIGAN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
Amounts reported for governmental activities in the Statement of Revenues, Expenditures and Changes in Fund Balances are different because:		
Net change in fund balance –	\$ (1,546,523)	\$ (195,032)
Government funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. (Total capital outlay \$2,627,259 less total depreciation (\$2,560,710).	66,549	(479,173)
Revenue in the Statement of Activities that do not provide current financial resources are not reported as revenue in the governmental funds – net effect on recognizing accrued personal property taxes.	7,500	2,000
This issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Debt incurred during current year		
Less: Principal repayment	<u>198,448</u>	<u>189,583</u>
Net	<u>198,448</u>	<u>189,583</u>
Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest – net effect	9,304	8,865
Accrued long-term sick and vacation – net effect	45,914	58,158
Internal Service Fund is used by management to charge the costs of management information systems to individual funds.	<u>123,804</u>	
Change in net assets in governmental activities	<u>\$ (1,095,004)</u>	<u>\$ (415,599)</u>

The notes to the financial statements are an integral part of this statement.

(Page 1 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	6,026,338	\$ 6,026,338	\$ 6,028,639	\$ 2,301
Other tax related revenue	67,000	67,000	87,764	20,764
Licenses and permits	170,650	170,650	262,278	91,628
Intergovernmental	2,536,932	2,546,932	2,501,144	(45,788)
Charges for services	66,000	66,500	63,631	(2,869)
Uses and admission charges	322,670	322,670	336,219	13,549
Fines and fees	301,000	301,000	324,033	23,033
Investment earnings	150,000	200,000	179,080	(20,920)
Miscellaneous	399,400	478,900	576,593	97,693
Contributions from DDA	<u>31,388</u>	<u>31,388</u>	<u>31,388</u>	
Total revenues	<u>10,071,378</u>	<u>10,211,378</u>	<u>10,390,769</u>	<u>179,391</u>
Expenditures:				
Current:				
General Government:				
City Commission	139,290	139,290	122,690	16,600
City Administrator	229,100	228,600	225,494	3,106
Government - Access Channel		63,643	34,318	29,325
Election Department	17,700	17,700	14,123	3,577
Finance Department	288,051	430,736	377,425	53,311
City Assessor	252,325	341,288	252,629	88,659
City Attorney	169,316	169,316	164,402	4,914
City Clerk	100,158	101,509	92,709	8,800
Human Resources	212,090	214,290	173,668	40,622
City Hall	149,300	224,474	218,792	5,682
Cemetery	335,846	335,959	287,556	48,403
Information technology		<u>128,564</u>	<u>128,564</u>	
Total general government	<u>1,893,176</u>	<u>2,395,369</u>	<u>2,092,370</u>	<u>302,999</u>
Public Safety:				
Police Department	2,789,836	2,918,406	2,772,966	145,440
Fire Department	1,519,464	1,531,408	1,485,840	45,568
Community Development	471,927	499,369	492,929	6,440
Animal Control		<u>2,000</u>	<u>1,450</u>	<u>550</u>
Total public safety	<u>4,781,227</u>	<u>4,951,183</u>	<u>4,753,185</u>	<u>197,998</u>
Total expenditures carried forward	<u>6,674,403</u>	<u>7,346,552</u>	<u>6,845,555</u>	<u>500,997</u>

The notes to the financial statements are an integral part of this statement.

(Page 2 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Total expenditures carried forward	\$ 6,674,403	\$ 7,346,552	\$ 6,845,555	\$ 500,997
Public Works:				
Department of Public Works	96,405	132,532	204,447	(71,915)
Stores - Central Supply	38,000	38,000	(6,176)	44,176
Motor Vehicle Pool	(159,000)	(20,887)	(48,558)	27,671
Sidewalks	82,000	82,000	54,255	27,745
Engineering	99,777	104,097	152,167	(48,070)
Street Lighting	126,100	131,857	131,187	670
Waste Collection and Disposal	642,200	642,200	611,519	30,681
Total public works	925,482	1,109,799	1,098,841	10,958
Culture and Recreation:				
Recreation Department	934,302	1,053,345	964,713	88,632
Parks and Forestry Department	732,750	753,221	525,285	227,936
Parks and Forestry - Heritage Park	136,539	136,539	165,551	(29,012)
Fee Estate Maintenance	565,266	582,160	604,812	(22,652)
Total culture and recreation	2,368,857	2,525,265	2,260,361	264,904
Other Services:				
Library	710,747	718,422	715,323	3,099
Planning Commission	40,750	84,359	38,781	45,578
Beautification - Parks (Fee)	669,000	705,526	72,388	633,138
Park Capital	40,000	232,046	158,924	73,122
Other Projects	19,804	95,628	27,188	68,440
Other	50,000	34,769		34,769
Total other services	1,530,301	1,870,750	1,012,604	858,146
Debt Service:				
Principal	198,448	198,448	198,448	
Interest	78,673	78,673	78,673	
Total debt service	277,121	277,121	277,121	-
Total expenditures	11,776,164	13,129,487	11,494,482	1,635,005
Excess (deficiency) of revenues over (under) expenditures	(1,704,786)	(2,918,109)	(1,103,713)	1,814,396

The notes to the financial statements are an integral part of this statement.

(Page 3 of 3)
CITY OF ADRIAN, MICHIGAN

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Other financing sources (uses):				
Transfers in	\$ 1,306,654	\$ 1,319,417	\$ 774,604	\$ (544,813)
Transfers out	<u>(178,386)</u>	<u>(362,289)</u>	<u>(345,616)</u>	<u>16,673</u>
Total other financing sources (uses)	<u>1,128,268</u>	<u>957,128</u>	<u>428,988</u>	<u>(528,140)</u>
Net change in fund balance	(576,518)	(1,960,981)	(674,725)	1,286,256
Fund balance at beginning of year	<u>7,237,093</u>	<u>7,237,093</u>	<u>7,237,093</u>	<u>-</u>
Fund balance at end of year	<u>\$ 6,660,575</u>	<u>\$ 5,276,112</u>	<u>\$ 6,562,368</u>	<u>\$ 1,286,256</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

MAJOR STREETS SPECIAL REVENUE FUND

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 970,535	\$ 1,102,535	\$ 1,065,830	\$ (36,705)
Investment earnings	14,000	14,000	19,700	5,700
Other	<u>12,765</u>	<u>12,765</u>		<u>(12,765)</u>
Total revenues	<u>997,300</u>	<u>1,129,300</u>	<u>1,085,530</u>	<u>(43,770)</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	255,800	725,220	520,480	204,740
Routine maintenance - streets	170,800	319,261	287,141	32,120
Routine maintenance - bridges	2,100	6,300	4,515	1,785
Maintenance - State trunklines	61,900	61,900	62,788	(888)
Traffic service	227,000	394,232	103,538	290,694
Winter maintenance	97,000	97,000	96,965	35
Administration	45,904	47,404	48,185	(781)
Non-motorized transportation	24,000	24,000	25,782	(1,782)
Other	7,800	(132)		(132)
Contribution to DDA		<u>15,000</u>	<u>15,000</u>	
Total expenditures	<u>892,304</u>	<u>1,690,185</u>	<u>1,164,394</u>	<u>525,791</u>
Excess (deficiency) of revenues over (under) expenditures	<u>104,996</u>	<u>(560,885)</u>	<u>(78,864)</u>	<u>482,021</u>
Other financing sources (uses):				
Transfers in		97,763	97,763	
Transfers out	<u>(115,900)</u>	<u>(115,900)</u>	<u>(115,900)</u>	
Total other financing sources (uses)	<u>(115,900)</u>	<u>(18,137)</u>	<u>(18,137)</u>	
Net change in fund balance	(10,904)	(579,022)	(97,001)	482,021
Fund balance - beginning of year	<u>2,012,191</u>	<u>2,012,191</u>	<u>2,012,191</u>	
Fund balance - end of year	<u>\$ 2,001,287</u>	<u>\$ 1,433,169</u>	<u>\$ 1,915,190</u>	<u>\$ 482,021</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
LOCAL STREETS SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental - State	\$ 343,000	\$ 375,500	\$ 403,315	\$ 27,815
Special assessment	<u>200,000</u>	<u>200,000</u>	<u>24,944</u>	<u>(175,056)</u>
Total revenues	<u>543,000</u>	<u>575,500</u>	<u>428,259</u>	<u>(147,241)</u>
Expenditures:				
Highways, streets, and bridges:				
Street construction	630,900	921,458	1,015,111	(93,653)
Routine maintenance - streets	313,000	353,964	289,140	64,824
Routine maintenance - bridges	1,000	1,000	813	187
Traffic service	42,000	42,000	44,824	(2,824)
Winter maintenance	60,000	90,000	81,375	8,625
Administration	39,904	39,904	49,029	(9,125)
Other	<u>11,131</u>	<u>11,131</u>		<u>11,131</u>
Total expenditures	<u>1,097,935</u>	<u>1,459,457</u>	<u>1,480,292</u>	<u>(20,835)</u>
Deficiency of revenues under expenditures	<u>(554,935)</u>	<u>(883,957)</u>	<u>(1,052,033)</u>	<u>(168,076)</u>
Other financing sources (uses):				
Transfers in	509,031	509,031	509,031	
Transfers out		<u>(32,500)</u>	<u>(32,500)</u>	
Total other financing sources (uses)	<u>509,031</u>	<u>476,531</u>	<u>476,531</u>	
Net change in fund balance	(45,904)	(407,426)	(575,502)	(168,076)
Fund balance - beginning of year	<u>655,314</u>	<u>655,314</u>	<u>655,314</u>	
Fund balance - end of year	<u>\$ 609,410</u>	<u>\$ 247,888</u>	<u>\$ 79,812</u>	<u>\$ (168,076)</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

ASSETS:	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds</u> <u>2005</u>	<u>2004</u>	<u>Information Technology</u>
Current assets:						
Cash and cash equivalents	\$ 491,199	\$ 98,982	\$ 316,151	\$ 906,332	\$ 1,626,369	\$ 54,465
Investments	1,205,571			1,205,571	2,446,051	
Receivables:						
Accounts	346,513	375,122	153	721,788	510,030	561
Special assessments	68,501		407,655	476,156	481,602	
Deferred assessments		22,629		22,629	91,130	
Due from other funds		295,313	33,247	328,560	249,927	85,571
Due from component units						10,904
Due from other governments			71,838	71,838	55,580	
Inventories		120,650		120,650	115,995	
Prepaid expense	4,450	8,082		12,532	12,764	
	2,116,234	920,778	829,044	3,866,056	5,589,448	151,501
Restricted assets available for current liabilities:						
Customer deposit – cash		15,030		15,030	13,305	
Bond interest and redemption account – investment	408,562	177,530		586,092	658,982	
Bond interest and redemption account – cash		81,501	5,973	87,474	53,383	
DWRP Bond receivable					217,025	
Total current assets	2,524,796	1,194,839	835,017	4,554,652	6,532,143	151,501
Noncurrent assets:						
Restricted investments						
Bond reserve – investment		200,000		200,000	200,000	
Replacement account – investment	500,000	100,000		600,000	600,000	
Total noncurrent restricted assets	500,000	300,000	-	800,000	800,000	-
Capital assets:						
Land	163,164	102,928	638,500	904,592	904,592	
Utility systems	36,684,699	21,837,304	2,380,243	60,902,246	43,493,713	
Land improvements			1,582,008	1,582,008	1,582,008	
Equipment			664,021	664,021	664,021	
Less: Accumulated depreciation	(14,059,513)	(7,046,504)	(1,973,002)	(23,079,019)	(21,554,789)	
Construction in progress	539,423	723,910		1,263,333	16,182,980	
Net capital assets	23,327,773	15,617,638	3,291,770	42,237,181	41,272,525	-
Total noncurrent assets	23,827,773	15,917,638	3,291,770	43,037,181	42,072,525	-
Total assets	\$ 26,352,569	\$ 17,112,477	\$ 4,126,787	\$ 47,591,833	\$ 48,604,668	\$ 151,501

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

	<u>BUSINESS-TYPE ACTIVITIES -- ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds</u>		<u>Information Technology</u>
				<u>2005</u>	<u>2004</u>	
LIABILITIES:						
Current liabilities:						
Vouchers payable	\$ 151,993	\$ 207,864	\$ 10,998	\$ 370,855	\$ 91,577	\$ 25,012
Accrued liabilities	28,237	31,961	1,386	61,584	10,216	2,676
Due to other funds	345,778	55,315	117,650	518,743	388,205	9
Due to other governments			6,349	6,349	5,427	
General obligation bonds payable -- current			100,000	100,000	145,000	
DWRF bonds payable -- current	<u>355,000</u>	<u>225,000</u>		<u>580,000</u>	<u>570,000</u>	
	881,008	520,140	236,383	1,637,531	1,210,425	27,697
Current liabilities payable from restricted assets:						
Customer deposits payable		15,030		15,030	13,305	
Accrued interest	<u>53,562</u>	<u>34,031</u>	<u>5,973</u>	<u>93,566</u>	<u>96,104</u>	
Total current liabilities	<u>934,570</u>	<u>569,201</u>	<u>242,356</u>	<u>1,746,127</u>	<u>1,319,834</u>	<u>27,697</u>
Noncurrent liabilities:						
Accrued sick and vacation pay	31,016	80,837		111,853	110,592	
General obligation bonds			100,000	100,000	200,000	
DWRF Bonds	<u>8,215,000</u>	<u>5,220,000</u>		<u>13,435,000</u>	<u>14,015,000</u>	
Total noncurrent liabilities	<u>8,246,016</u>	<u>5,300,837</u>	<u>100,000</u>	<u>13,646,853</u>	<u>14,325,592</u>	
Total liabilities	<u>9,180,586</u>	<u>5,870,038</u>	<u>342,356</u>	<u>15,392,980</u>	<u>15,645,426</u>	<u>27,697</u>
NET ASSETS						
Invested in capital assets, net of related debt	14,757,773	10,172,638	3,091,770	28,022,181	26,559,550	
Restricted for debt service	355,000	425,000		780,000	770,000	
Restricted for replacement	500,000	100,000		600,000	600,000	
Unrestricted	<u>1,559,210</u>	<u>544,801</u>	<u>692,661</u>	<u>2,796,672</u>	<u>5,029,692</u>	<u>123,804</u>
Total net assets	<u>\$ 17,171,983</u>	<u>\$ 11,242,439</u>	<u>\$ 3,784,431</u>	<u>\$ 32,198,853</u>	<u>\$ 32,959,242</u>	<u>\$ 151,501</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS**

**For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004**

	<u>BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS</u>				<u>GOVERNMENTAL ACTIVITIES</u>	
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2005</u>	<u>2004</u>	<u>Information Technology</u>
Operating revenues:						
Charges for services	\$ 2,604,027	\$ 2,635,085	\$ 521,309	\$ 5,760,421	\$ 5,425,766	\$ 625,822
Miscellaneous revenues	<u>69,063</u>	<u>265,824</u>	<u>250</u>	<u>335,137</u>	<u>329,635</u>	<u>5,025</u>
Total operating revenues	<u>2,673,090</u>	<u>2,900,909</u>	<u>521,559</u>	<u>6,095,558</u>	<u>5,755,401</u>	<u>630,847</u>
Operating expenses:						
Cost of services	2,271,711	2,463,550	855,014	5,590,275	4,868,062	507,043
Depreciation	<u>979,359</u>	<u>433,748</u>	<u>111,124</u>	<u>1,524,231</u>	<u>1,024,219</u>	<u> </u>
Total operating expenses	<u>3,251,070</u>	<u>2,897,298</u>	<u>966,138</u>	<u>7,114,506</u>	<u>5,892,281</u>	<u>507,043</u>
Operating income (loss)	<u>(577,980)</u>	<u>3,611</u>	<u>(444,579)</u>	<u>(1,018,948)</u>	<u>(136,880)</u>	<u>123,804</u>
Nonoperating revenues						
expenses:						
Intergovernmental – State			170,104	170,104	162,797	
Intergovernmental – Federal			52,354	52,354	42,674	
Interest revenue	86,055	18,257	29,088	133,400	95,723	
Interest expense	(214,310)	(137,453)	(21,782)	(373,545)	(98,207)	
Bond agent expense					(500)	
Total nonoperating revenues (expenses)	<u>(128,255)</u>	<u>(119,196)</u>	<u>229,764</u>	<u>(17,687)</u>	<u>202,487</u>	<u>-</u>
Income (loss) before contributions and transfers	(706,235)	(115,585)	(214,815)	(1,036,635)	65,607	123,804
Capital contribution					50,111	
Transfers in			<u>276,246</u>	<u>276,246</u>	<u>169,127</u>	
Change in net assets	(706,235)	(115,585)	61,431	(760,389)	284,845	123,804
Total net assets – beginning of year	<u>17,878,218</u>	<u>11,358,024</u>	<u>3,723,000</u>	<u>32,959,242</u>	<u>32,674,397</u>	
Total net assets – end of year	<u>\$ 17,171,983</u>	<u>\$ 11,242,439</u>	<u>\$ 3,784,431</u>	<u>\$ 32,198,853</u>	<u>\$ 32,959,242</u>	<u>\$ 123,804</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS</u>					<u>GOVERNMENTAL ACTIVITIES</u>
	<u>Wastewater System</u>	<u>Water System</u>	<u>Other Enterprise Funds</u>	<u>Totals Proprietary Funds 2005</u>	<u>2004</u>	<u>Information Technology</u>
Cash flows from operating activities:						
Cash received from customers	\$ 2,584,793	\$ 2,682,604	\$ 521,370	\$ 5,788,767	\$ 5,848,373	\$ 533,811
Cash paid to suppliers	(1,136,519)	(1,408,052)	(518,193)	(3,062,764)	(4,779,978)	(406,473)
Cash paid to employees	(702,811)	(1,019,538)	(342,944)	(2,065,293)	(2,028,614)	(72,873)
Net cash provided by (used in) operating activities	745,463	255,014	(339,767)	660,710	(960,219)	54,465
Cash flows from noncapital financing activities:						
Grant received - Federal			45,639	45,639	41,566	
Grant received - State			160,561	160,561	166,770	
Transfers from General Fund			291,508	291,508	167,409	
Net cash provided by noncapital financing activities	-	-	497,708	497,708	375,745	-
Cash flows from capital and related financing activities:						
Acquisition and construction of capital assets	(1,508,766)	(980,532)		(2,489,298)	(8,566,925)	
Principal paid on general obligation bonds			(145,000)	(145,000)	(140,000)	
Interest paid and agent fees on general obligation bonds			(22,931)	(22,931)	(21,883)	
Special assessments			99,187	99,187	153,424	
Special assessment revenue provided to other funds			(25,240)	(25,240)	(66,484)	
Principal paid on revenue bonds					(250,000)	
Interest paid and agent fees on revenue bonds					(7,031)	
Principal paid on DWRFBonds	(350,000)	(220,000)		(570,000)		
Interest paid on DWRFBonds	(214,370)	(138,782)		(353,152)	(220,610)	
Bond proceeds					9,305,678	
Net cash provided by (used in) capital and related financing activities	(2,073,136)	(1,339,314)	(93,984)	(3,506,434)	186,169	-
Cash flows from investing activities:						
Investment securities purchased	(1,000,000)	(98,682)		(1,098,682)	(8,389,433)	
Proceeds on matured investment securities	2,318,037	311,040		2,629,077	8,636,964	
Interest income	86,055	18,257	29,088	133,400	108,408	
Net cash provided by investing activities	1,404,092	230,615	29,088	1,663,795	355,939	-

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

GOVERNMENTAL
ACTIVITIES

BUSINESS-TYPE ACTIVITIES – ENTERPRISE FUNDS

	Wastewater System	Water System	Other Enterprise Funds	Totals Proprietary Funds 2005	2004	Information Technology
Net increase (decrease) in cash and cash equivalents	\$ 76,419	\$ (853,685)	\$ 93,045	\$ (684,221)	\$ (42,366)	\$ 54,465
Cash and cash equivalents at beginning of year	<u>414,780</u>	<u>1,049,198</u>	<u>229,079</u>	<u>1,693,057</u>	<u>1,735,423</u>	
Cash and cash equivalents at end of year	<u>\$ 491,199</u>	<u>\$ 195,513</u>	<u>\$ 322,124</u>	<u>\$ 1,008,836</u>	<u>\$ 1,693,057</u>	<u>\$ 54,465</u>

NOTE: Noncash items – change in fair value of investments –

Wastewater System	\$ (7,488)
Water System	<u>(1,025)</u>
	<u>\$ (8,513)</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

Operating income (loss)	\$ (577,980)	\$ 3,611	\$ (444,579)	\$ (1,018,948)	\$ (136,880)	\$ 123,804
Adjustments to reconcile operating income (loss) to to net cash provided by (used in) operating activities:						
Depreciation	979,359	434,158	111,124	1,524,641	1,024,219	
Change in Assets and Liabilities:						
(Increase) decrease in accounts receivable	(271,050)	59,445	(153)	(211,758)	115,730	(561)
(Increase) decrease in due from other funds	182,753	(277,750)	(36)	(95,033)	(22,082)	(96,475)
(Increase) decrease in inventories		(4,655)		(4,655)	(8,470)	
(Increase) decrease in prepaid expense	819	(587)		232	(1,359)	
Increase (decrease) in vouchers payable	113,684	162,158	3,436	279,278	(1,854,878)	25,012
Increase (decrease) in due to County			922	922	905	
Increase (decrease) in accrued payroll and liabilities	26,714	25,795	(1,140)	51,369	(30,069)	2,676
Increase (decrease) in due to other funds	305,067	(164,050)	(9,341)	131,676	(9,777)	9
Increase (decrease) in accrued sick and vacation	(13,903)	15,164		1,261	(36,882)	
Increase (decrease) in customer deposits		<u>1,725</u>		<u>1,725</u>	<u>(676)</u>	
Total adjustments	<u>1,323,443</u>	<u>251,403</u>	<u>104,812</u>	<u>1,679,658</u>	<u>(823,339)</u>	<u>(69,339)</u>
Net cash provided by (used in) operating activities	<u>\$ 745,463</u>	<u>\$ 255,014</u>	<u>\$ (339,767)</u>	<u>\$ 660,710</u>	<u>\$ (960,219)</u>	<u>\$ 54,465</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2005 and 2004

<u>ASSETS</u>	<u>2005</u>	<u>2004</u>
Cash and cash equivalents	\$ 461,012	\$ 426,807
Total assets	<u>\$ 461,012</u>	<u>\$ 426,807</u>
<u>LIABILITIES</u>		
Liabilities:		
Vouchers payable	\$ 24,380	\$ 10,608
Restricted deposits	294,078	271,886
Due to other taxing units	<u>142,554</u>	<u>144,313</u>
Total liabilities	<u>\$ 461,012</u>	<u>\$ 426,807</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Adrian, Michigan have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below:

A. Reporting Entity

The City of Adrian is a Michigan Municipal Corporation governed by an elected seven member commission. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government.

Blended component unit. The City of Adrian Building Authority is governed by a three member board appointed by the City Commission. Although it is legally separate from the City, the City of Adrian Building Authority is reported as if it was part of the primary government because its sole purpose is to finance the construction of City parking lots.

The City of Adrian Building Authority is reported in the financial statements as part of the 'Automobile Parking System Enterprise Fund', where the revenues of the fund are paying off the bond issue of the Authority.

Discretely presented component units.

Downtown Development Authority (DDA) was created as a separate legal entity under Public Act 197 of 1975 of the State of Michigan. The purpose of the DDA is to plan and develop the downtown area of the City and to attract new businesses and residents. The governing body of DDA is appointed by the City Commission for a fixed term. The City approves the annual budget and any capital projects of DDA. Prior approval by the City is needed on any taxation by DDA. And, the City's approval is needed for any borrowing done by DDA. The Downtown Development Authority is presented as a governmental fund type.

The other discretely presented component unit is the Local Development Finance Authority (LDFA) created under Public Act 281 of 1986 of the State of Michigan. The LDFA's purpose is to work toward the elimination of the causes of unemployment, underemployment and joblessness, and to promote economic growth in the City of Adrian. The City appoints the majority of the LDFA Board of Directors. The budget of the LDFA needs the City's approval. And, the main revenue source of LDFA which is tax increment financing is a financial burden to the City. The Local Development Finance Authority is presented as a governmental fund type.

Separate financial statements for each of the individual component units are not available.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement focus, basis of accounting and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts due from other governments, loans receivable, Fee funding, and services provided associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as major streets under State of Michigan Act 51 of Public Acts of 1951.

The *Local Streets Fund* is a Special Revenue Fund that receives State and local funding for the purpose of construction and maintenance of City streets designated as local streets under State of Michigan Act 51 of Public Acts of 1951.

The *Fee and Public-Purpose Fund* is a Special Revenue Fund that receives funds that are restricted for specific public-purpose uses and can be fully expended for the restricted purpose or purposes.

The government reports the following major proprietary funds.

The *Wastewater System Fund* accounts for the acquisition, operation, and maintenance of the City's wastewater system.

The *Water System Fund* accounts for the acquisition, operation and maintenance of the City's water system.

Additionally, the government reports the following fund types:

The *Internal Service Fund (Information Technology Fund)* accounts for management information systems and services provided to other funds of the City on a cost reimbursement basis.

The *Agency Funds* account for assets held by the City acting as an agent for individuals, private organizations, other governments, and/or other funds.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of the following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments of utility charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various function concerned.

Amounts reported as *program revenues* included 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary Funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Wastewater and Water Enterprise Funds are charges to customers for sales and services. The Wastewater and Water Enterprise Funds also recognize as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

E. Assets, liabilities, and net assets or equity.

1. Cash and investments

Cash includes amounts in cash on hand, demand deposits, and may include short-term investments with a maturity date within three months of the date acquired by the government.

Investments include Money Market Accounts, Certificates of Deposit, U.S. Agencies Securities, Mutual Funds, and Corporate Bonds.

State statutes authorize the government to invest in Money Market Accounts and Certificates of Deposit, Obligations of the U.S. Treasury, Federal Agencies, Commercial Paper, Corporate Bonds, Repurchase Agreements, and State approved Investment Pools.

Investments are stated at fair value.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources. The City had no advances between funds at June 30, 2005.

Personal property taxes receivable is shown net of an allowance for uncollectibles. Based on past history, the majority of personal property taxes receivable are considered uncollectible and reserved in the allowance for uncollectibles.

Property taxes are levied as of July 1 on property values assessed as of the prior December 31. The billing is mailed on July 1 and is considered due upon receipt by the taxpayer; however, the actual due date is August 31. A lien on property occurs when property taxes are levied (July 1). On August 31, the bill becomes delinquent and penalties and interest may be assessed by the government.

Delinquent real property taxes are turned over to the County and reimbursed through a revolving fund. Therefore, property taxes receivable are not accounted for under the 60 day rule.

3. Inventories and prepaid items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Restricted assets

Certain proceeds of enterprise fund revenue bonds and general obligations bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. The bond interest and redemption account is used to segregate resources accumulated for debt service payments. The bond reserve account is used to report resources set aside to make debt service payment on bonds which would otherwise be in default. The replacement account is used to report resources set aside to make major repairs and replacements to fixed operation assets of the enterprise fund.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., road, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20 - 50
Buildings	10 - 20
Machinery, equipment, and furnishings	5 - 35
Utility systems	50 - 100
Infrastructure	15 - 100

6. Compensated absences

Vacation leave benefits for City employees are based on past services rendered and are accrued as a liability based on the expected use of the benefits through paid time off and cash payments at termination or retirement. ~~The accrued liability for vacation time is determined under the vesting method as defined by GASB Statement 16.~~

Sick leave for City employees is vested to the extent that cash payments are made (up to allowable limits) to employees upon retirement. The accrued liability for sick leave is determined under the termination method as defined by GASB Statement 16.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The current portion (the amount normally expected to be liquidated with expendable available financial resources) of accrued sick and vacation pay are shown as a liability and expenditure in the applicable governmental fund types. The entire accrued sick and vacation pay related to governmental fund types is reported in the government-wide statements.

In the proprietary funds as well as in the government-wide statements, the vested sick and vacation pay are recorded as an expense and liability of those funds as the benefits accrue to employees.

7. Long-term obligations

In the governmental-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, if any, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of any applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize any bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

8. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

9. Comparative data/reclassification

Comparative data for the prior year have been presented in order to provide an understanding of the changes in the financial position and operations of the funds. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with current year's presentation.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the Fee and Public-Purpose Special Revenue Fund and the permanent funds which are not budgeted. All annual appropriations lapse at fiscal year end.

On or before the last Tuesday of February each year, all departments of the City submit requests for appropriations to the Finance Director so that a budget may be prepared. With the first City Commission meeting in April, the proposed budget is presented to the City Commission for review. The Commission holds public hearings and a final budget must be prepared and adopted no later than the second week of May.

The appropriated budget is prepared by fund, function, and activity. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department/activity level, i.e., City Commission, Finance Department, City Clerk. The Commission made several supplemental budgetary appropriations throughout the year, including increases in construction in Major and Local Streets' Funds totaling \$759,978. The supplemental budgetary appropriations made in the General Fund were in anticipation of normal activity.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

B. Excess of expenditures over appropriations in budgetary funds

P.A. 621 of 1978, Section 18(1), as amended, of the State of Michigan provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a department/activity basis. The approved budgets of the City for these budgetary funds were adopted to the activity level i.e., City Commission, Finance Department, City Clerk. Two funds had total expenditures exceed budget – Local Street Fund and OMNI Special Revenue Fund.

During the year ended June 30, 2005, the City incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated, as follows:

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 2. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

<u>Fund</u>	<u>Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund			
Department of Public Works	\$ 132,532	\$ 204,447	\$ 71,915
Engineering	104,097	152,167	48,070
Fee Estate maintenance	582,160	604,812	22,652
Heritage Park	136,539	165,551	29,012
Major Streets Fund			
Maintenance – State trunklines	61,900	62,788	888
Non-motorized transportation	24,000	25,782	1,782
Administration	47,404	48,185	781
Local Streets Fund			
Street construction	921,458	1,015,111	93,653
Traffic service	42,000	44,824	2,824
Administration	39,904	49,029	9,125
Total fund expenditures	1,459,457	1,480,292	20,835
Economic Development Fund			
Transfers out	16,000	36,000	20,000
OMNI Fund			
Total fund expenditures	59,000	65,246	6,246

These additional expenditures were funded by greater than anticipated revenues in the case of Major Streets, Local Streets, and OMNI Special Revenue Funds.

C. Fund equity – designations

The City Commission has designated a part of the General Fund's unreserved fund balance for the following purposes:

1.	DPW – Motor Pool – Depreciation Catch-Up	\$ 1,400,000
2.	City Hall Renovations	1,300,000
3.	Funding for Fiscal Year 2005-06 Budget	375,342
4.	Property Acquisitions and Options (Pearl Street, Other)	350,000
5.	Replace Fire Engine #1	280,000
6.	Increase in Actuarially Determined Pension Contribution	200,000
7.	Technology Infrastructure Upgrades (GIS, Other)	197,000
8.	Telecommunication Upgrades	175,000
9.	Heritage Park Farm House Renovations	58,000
10.	CRIMP Savings	45,824
11.	Local Grant Match	25,000
	Total Proposed Designations	\$ 4,406,166

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of June 30, 2005, the City had the following investments and maturities:

<u>Investment Type</u>	<u>Fair value</u>	<u>Investment Maturities (In Years)</u>		
		<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>
Money Market Accounts	\$ 2,245,126	\$ 2,245,126	\$	\$
Certificates of Deposit	2,169,507	435,113	1,145,112	589,282
U.S. Agencies	6,149,536	2,952,876	3,196,660	
Mutual Fund - Cash (U.S. Government Securities)	<u>619,930</u>	<u>619,930</u>		
Total fair value	<u>\$ 11,184,099</u>	<u>\$ 6,253,045</u>	<u>\$ 4,341,772</u>	<u>\$ 589,282</u>

Interest Rate Risk. Currently, as shown above, more than half the total value of investments have maturity of less than one year. However, the City's investment policy has no provision limiting interest rate risk.

Credit Risk. The City's investment policy limits investments to certificates of deposit or money market accounts; U.S. Government and U.S. Agencies Securities; commercial paper with ratings at the two highest levels established by not less than two standard rating services; and corporate bonds, mutual funds, and repurchase agreements meeting State requirements. The money market accounts and mutual funds in the City's investments at June 30, 2005 were unrated.

Concentration of Credit Risk. The City's investment policy does not limit the amount of investment with any one issuer. For investments, more than five percent of the City's holdings were with Prime Vest Financial Services (11% of the City's total investments which represent 100% of Major Street Fund's investments) in the form of money market funds. Also, United Bank and Trust had 9% of the City's total investments, which was 14% of the General Fund's investments and 89% of Fee and Public-Purpose Fund's investments in the form of money market funds.

In addition, Standard Federal Bank (now LaSalle Bank) had 12% of the City's total investment, which was 49% of the investments of the Sewer Fund and 32% of the investments in the Water Fund, in the form of certificates of deposit.

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the deposits may not be fully returned to the City. Neither the City nor the discretely presented component units, have a policy limiting custodial credit risk, other than authorizing (through Commission approval) the depositories used. As of June 30, 2005, \$3,108,342 of the City's bank balance of \$3,473,495 was exposed to custodial credit risk because it was uninsured and uncollateralized. As of the same date, the discretely presented component units had exposure to custodial credit risk because \$687,985 of their bank balance of \$787,985 of was uninsured and uncollateralized.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Custodial Credit Risk – Investments. For the money market accounts and certificates of deposit which are with banks (noted exception is the \$1,219,111 with Prime Vest Financial Services in money market funds), the exposure is the same as stated above for deposits. As of June 30, 2005, these investments with total balances of \$4,414,633 were exposed to custodial credit risk on the balance of \$2,758,129 as being uninsured and uncollateralized.

For the remaining investments, the risk is, in the event of failure of the counterparty, will the City be able to recover the value of its investments. The U.S. Agencies investments of \$6,149,536 are held by counterparties and the securities are uninsured and not registered in the name of the City, which exposes them to custodial credit risk. The mutual funds of \$619,930 are not exposed to custodial credit risk.

B. Receivables

Receivables as of year end for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Fee And Public-Purpose</u>	<u>Wastewater System</u>	<u>Water System</u>	<u>Nonmajor Funds</u>	<u>Total</u>
Receivables:								
Taxes	\$ 490,262	\$	\$	\$	\$	\$	\$	\$ 490,262
Accounts	104,891	15,992	64,590	159,656	346,513	375,122	64,103	1,130,867
Special assessments					68,501	22,629	407,655	498,785
Intergovernmental	310,311						71,838	382,149
Community Development loans								
							229,261	229,261
Gross receivables	905,464	15,992	64,590	159,656	415,014	397,751	772,857	2,731,324
Less: Allowance for uncollectibles	490,262							490,262
Net total receivables	<u>\$ 415,202</u>	<u>\$ 15,992</u>	<u>\$ 64,590</u>	<u>\$ 159,656</u>	<u>\$ 415,014</u>	<u>\$ 397,751</u>	<u>\$ 772,857</u>	<u>\$ 2,241,062</u>

Governmental funds defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned revenue* reported in the government funds were as follows:

	<u>Unearned Revenue</u>
Funds for training classes to be held in the future	\$ 12,272
Donations restricted for library not yet earned	11,629
Forfeiture funds for police not yet earned	<u>13,138</u>
	<u>\$ 37,039</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

C. Capital assets

Capital asset activity for the year ended June 30, 2005 was as follows:

Primary Government

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 7,510,774	\$	\$	\$ 7,510,774
Total capital assets, not being depreciated	<u>7,510,774</u>	<u>-</u>	<u>-</u>	<u>7,510,774</u>
Capital assets, being depreciated:				
Land improvements	6,077,429	80,437		6,157,866
Buildings	4,611,364	2,043		4,613,407
Machinery, equipment, and furnishings	9,923,736	1,188,935		11,112,671
Infrastructure	<u>30,937,562</u>	<u>1,355,844</u>		<u>32,293,406</u>
Total capital assets, being depreciated	<u>51,550,091</u>	<u>2,627,259</u>	<u>-</u>	<u>54,177,350</u>
Less: Accumulated depreciation for:				
Land improvements	(486,971)	(50,953)		(537,924)
Buildings	(2,557,835)	(150,662)		(2,708,497)
Machinery, equipment, and furnishings	(4,973,983)	(782,149)		(5,756,132)
Infrastructure	<u>(25,470,017)</u>	<u>(1,576,946)</u>		<u>(27,046,963)</u>
Total accumulated depreciation	<u>(33,488,806)</u>	<u>(2,560,710)</u>	<u>-</u>	<u>(36,049,516)</u>
Total capital assets, being depreciated, net	<u>18,061,285</u>	<u>66,549</u>	<u>-</u>	<u>18,127,834</u>
Governmental activities, capital assets - net	<u>\$ 25,572,059</u>	<u>\$ 66,549</u>	<u>\$ -</u>	<u>\$ 25,638,608</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 904,592	\$	\$	\$ 904,592
Construction in progress	<u>16,182,980</u>	<u> </u>	<u>(14,919,647)</u>	<u>1,263,333</u>
Total capital assets, not being depreciated	<u>17,087,572</u>	<u>-</u>	<u>(14,919,647)</u>	<u>2,167,925</u>
Capital assets, being depreciated:				
Land improvements	1,582,008			1,582,008
Utility systems	43,493,713	17,408,534		60,902,247
Machinery, equipment, and furnishings	<u>664,021</u>	<u> </u>	<u> </u>	<u>664,021</u>
Total capital assets, being depreciated	<u>45,739,742</u>	<u>17,408,534</u>	<u>-</u>	<u>63,148,276</u>
Less: Accumulated depreciation for:				
Land improvements	(315,801)	(32,509)		(348,310)
Utility systems	(20,829,162)	(1,437,071)		(22,266,233)
Machinery, equipment, and furnishings	<u>(409,826)</u>	<u>(54,651)</u>	<u> </u>	<u>(464,477)</u>
Total accumulated depreciation	<u>(21,554,789)</u>	<u>(1,524,231)</u>	<u>-</u>	<u>(23,079,020)</u>
Total capital assets, being depreciated - net	<u>24,184,953</u>	<u>15,884,303</u>	<u>-</u>	<u>40,069,256</u>
Business-type activities, capital assets - net	<u>\$ 41,272,525</u>	<u>\$ 15,884,303</u>	<u>\$ (14,919,647)</u>	<u>\$ 42,237,181</u>

No interest expense was capitalized in fiscal year 2004-05 due to all current debt financed projects are complete.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:

General government	\$ 68,227
Public safety	144,659
Public works (includes sidewalks and street lights)	222,496
Culture and recreation (includes parks)	115,066
Other services (includes library)	572,853
Community/economic development	3,250
Highways, streets, and bridges	<u>1,434,159</u>

Total depreciation expense –
governmental activities

\$ 2,560,710

Business-type activities:

Wastewater system	\$ 979,359
Water system	433,748
Dial-A-Ride system	54,000
Automobile parking system	16,093
Storm water system	<u>41,031</u>

Total depreciation expense –
business-type activities

\$ 1,524,231

Construction commitments

The government has active construction projects as of June 30, 2005. The projects include street construction and paving, sidewalk construction, water system improvements, paving of trail, and demolition of house.

	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street construction and paving – Major Streets	\$ 79,394	\$ 134,297
Street construction and paving – Local Streets	261,340	196,743
Sidewalk construction		41,060
Water system improvements		207,059
Paving recreational trail		85,123
House demolition		<u>2,800</u>
Total	<u>\$ 340,734</u>	<u>\$ 667,082</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The special assessment portion of the commitment for street construction is being financed by the Capital Project Fund that will be repaid by the benefiting property owners. The City's portion of these projects are being funded by the transfer of existing resources from the Municipal Streets Fund. The commitment for improvements to the wastewater and water systems is being financed by revenue bonds secured by wastewater and water revenues.

Discretely presented component units:

Capital asset activity for the Downtown Development Authority (DDA) for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, not being depreciated:				
Land	\$ 53,494	\$	\$	\$ 53,494
Capital assets, being depreciated:				
Land improvements	1,225,000			1,225,000
Less: Accumulated depreciation for:				
Land improvements	<u>(490,000)</u>	<u>(49,000)</u>	<u> </u>	<u>(539,000)</u>
DDA capital assets – net	<u>\$ 788,494</u>	<u>\$ (49,000)</u>	<u>\$ -</u>	<u>\$ 739,494</u>

Capital asset activity for the Local Development Finance Authority (LDFA) for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets, being depreciated:				
Utility systems	\$ 920,000	\$	\$	\$ 920,000
Less: Accumulated depreciation for:				
Utility	<u>(119,600)</u>	<u>(9,200)</u>	<u> </u>	<u>(128,800)</u>
LDFA capital assets – net	<u>\$ 800,400</u>	<u>\$ (9,200)</u>	<u>\$ -</u>	<u>\$ 791,200</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

D. Interfund receivables, payables, and transfers

Primary Government

Due to/from other funds:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	\$ 466,093	Major Street	\$ 48,651
		Local Street	30,731
		Municipal Street	36,330
		Community Development	4,173
		Economic Development	6,250
		Wastewater	23,662
		Water	37,116
		Storm Water Utility	3,257
		Capital Projects Revolving	53,240
		Information Technology	9
		Trust	161,338
		Perpetual Care	183
		Dial-A-Ride	61,153
	<u>466,093</u>		<u>466,093</u>
Endowment Trust	<u>22,678</u>	General	<u>22,678</u>
Community Development	<u>4,100</u>	General	<u>4,100</u>
Auto Parking	<u>33,247</u>	General	<u>33,247</u>
Water	<u>295,313</u>	Wastewater	<u>295,313</u>
Information Technology	85,571	Water	18,199
		Wastewater	26,803
		Major Street	10,904
		Local Street	10,904
		Community Development	13,761
		Economic Development	5,000
	<u>85,571</u>		<u>85,571</u>
Total primary government	<u>\$ 907,002</u>		<u>\$ 907,002</u>

Due to/from primary government and component units:

<u>Receivable Entity</u>		<u>Payable Entity</u>	
General	\$ 700	DDA - TIF	\$ 700
Information Technology	<u>10,904</u>	DDA - TIF	<u>10,904</u>
	<u>\$ 11,604</u>		<u>\$ 11,604</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

The balance of \$85,571 due to the Information Technology Fund from other funds noted above is for interfund services provided. All remaining balances resulted from time lag between the dates that (1) reimbursable expenditures occur, (2) revenues collected for another fund, and (3) payments between funds are made.

Interfund transfers:

Primary Government

Transfers out:	<u>Transfers In</u>					<u>Total</u>
	<u>General Fund</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Nonmajor Government</u>	<u>Nonmajor Enterprise</u>	
General Fund	\$	\$ 65,263	\$	\$ 4,106	\$ 276,246	\$ 345,615
Major Streets			115,900			115,900
Local Streets		32,500				32,500
Fee and Public-Purpose	672,216					672,216
Nonmajor Governmental	<u>102,388</u>		<u>393,131</u>			<u>495,519</u>
	<u>\$ 774,604</u>	<u>\$ 97,763</u>	<u>\$ 509,031</u>	<u>\$ 4,106</u>	<u>\$ 276,246</u>	<u>\$ 1,661,750</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (i.e. property taxes from Municipal Street Fund to Local Street Fund) (2) use unrestricted revenues collected in the General Fund to various programs accounted for in other funds in accordance with budgetary authorizations (3) move revenues to the General Fund from other funds for General Fund programs related to the overall purpose of the transferring fund in accordance with budgetary authorizations. In fiscal year 2004-05, the Fee and Public-Purpose Fund transferred \$672,216 to the General Fund for City beautification projects. Also, Major Street Fund transferred to Local Street Fund \$115,900 to support local street construction projects.

E. Long-term Debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities and land purchase. General obligation bonds have been issued for both business-type activities and component unit.

General obligation bonds are direct obligations and pledge the full faith and credit of the government.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Primary Government						
Business-type activities:						
Storm Water Utility	1/01/97	800,000	4.5 to 4.8%	9/01/2006	\$ 95,000 to 100,000	\$ 200,000
						<u>\$ 200,000</u>
Component Unit						
Downtown Development Authority	10/01/92	\$ 1,025,000	6.4%	3/01/2012	\$ 80,000 to 90,000	\$ 575,000
						<u>\$ 575,000</u>

Primary Government

The City is purchasing a parcel of land, located in Adrian Township, with an installment purchase obligation from the Bank of Lenawee which replaces the original land contract arrangement to purchase the land. The installment purchase is for \$1,000,000 with an interest rate of 5.75% per annum. Payments will be made semiannually over a ten year term. The debt is a general obligation to the City.

The City also has purchased a parcel of land, located in Madison Township, with an installment purchase obligation from the Bank of Lenawee. The installment purchase is for \$1,200,000 with an interest rate of 3.64% per annum. Payments are made semiannually over a ten year term. The debt is a general obligation to the City.

The installment purchase obligations currently outstanding are:

	<u>Closing Date</u>	<u>Value of Contract</u>	<u>Interest</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Governmental:						
Parks and Trees Department	8/1/00	\$ 1,000,000	5.75%	8/01/2010	\$ 64,584 to 123,808	\$ 619,035
Parks and Trees Department	5/23/03	\$ 1,200,000	3.64%	5/23/2013	\$ 105,201 to 140,394	993,325
						<u>\$ 1,612,360</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Annual debt service requirements to maturity for general obligation bonds and bank loans are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Component Unit – DDA</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 207,751	\$ 69,369	\$ 100,000	\$ 7,150	\$ 85,000	\$ 36,800
2007	217,514	59,607	100,000	2,400	85,000	31,360
2008	227,759	49,363			85,000	25,920
2009	238,512	38,610			80,000	20,480
2010	249,803	27,322			80,000	15,360
2011 – 2013	<u>471,021</u>	<u>28,137</u>			<u>160,000</u>	<u>15,360</u>
	<u>\$ 1,612,360</u>	<u>\$ 272,408</u>	<u>\$ 200,000</u>	<u>\$ 9,550</u>	<u>\$ 575,000</u>	<u>\$ 145,280</u>

Revenue bonds: The government issues bonds where the government pledges income derived from the acquired or constructed assets to pay debt service. Under two revenue bond issues – Wastewater System Revenue Bonds (September 26, 2002) not to exceed \$9,000,000; and Water Supply System Revenue Bonds, Series 2003, (September 26, 2002) not to exceed \$8,000,000, funding is provided for improvements in the wastewater and water systems.

These bond issues were purchased by the Michigan Municipal Bond Authority under the Drinking Water Revolving Fund (DWRP). Under the purchase contract, the City has received the principal proceeds as loan draw-downs as the construction costs were incurred. These projects are now completed. At June 30, 2005, the final Wastewater System loan/bond balance outstanding was \$8,570,000, and the Water System loan/bond balance was \$5,445,000.

Revenue bonds outstanding at June 30, 2005 are as follows:

<u>Purpose</u>	<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rates</u>	<u>Final Maturity Date</u>	<u>Annual Principal Payments</u>	<u>Balance Outstanding</u>
Wastewater System Improvements	9/26/02	\$ 8,920,000	2.5%	10/01/2023	\$ 350,000 to 560,000	\$ 8,570,000
Water System Improvements	9/26/02	5,665,000	2.5%	10/01/2023	\$ 220,000 to 355,000	<u>5,445,000</u>
						<u>\$ 14,015,000</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

Revenue bond debt service requirements to maturity are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2006	\$ 580,000	\$ 343,125
2007	600,000	328,375
2008	615,000	313,187
2009	630,000	297,625
2010	645,000	282,332
2010 - 2023	<u>10,945,000</u>	<u>2,025,918</u>
	<u>\$ 14,015,000</u>	<u>\$ 3,590,562</u>

Reimbursement obligation

The Local Development Finance Authority, a discretely presented component unit, is obligated to pay under a reimbursement agreement a manufacturing firm for construction costs incurred in regard to on-site improvements made at the Beecher Street Industrial Park. The amount to be paid is \$800,000 with interest at 10% per annum. Principal payments are scheduled at \$50,000 per year starting June 1, 1993 thru June 1, 2008; however, the payments of principal and interest are subject to limitation by the amount on tax increment revenue available in LDFA. Insufficient tax revenues and the resulting inability to pay the debt obligations in full does not constitute a default. Nor does the City have any direct responsibility in paying any shortfalls.

There were insufficient funds in the LDFA to pay the full obligation under this reimbursement agreement in fiscal years 2004-05 and 2003-04. The outstanding balance on the debt obligation was \$764,100 at June 30, 2005.

Future principal and interest payments on this obligation will vary depending upon the tax increment revenues collected. For this reason, a schedule of future debt service requirements is not presented.

The Local Development Finance Authority also has a reimbursement agreement with the City of Adrian. This agreement also pays back the City for costs it incurred for on-site improvements at the Beecher Street Industrial Park. This total amount is \$120,000 with interest at 8% per annum. Principal payments are scheduled at \$7,500 per year starting June 1, 1993 thru June 1, 2008. Payments of principal and interest are subject to limitation by the amount of tax increment revenue collected. However, the City has priority of payment on its obligation from LDFA over that of the manufacturing firm.

No schedule of indebtedness or of future debt service requirements is shown since this obligation is owed to the City.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

CHANGES IN LONG TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Governmental activities:					
Installment purchase obligations	\$ 1,810,808	\$	\$ 198,448	\$ 1,612,360	\$ 207,751
Accrued sick and vacation	<u>309,543</u>	<u>971,286</u>	<u>1,017,200</u>	<u>263,629</u>	<u>179,236</u>
Governmental activity - long-term liability	<u>\$ 2,120,351</u>	<u>\$ 971,286</u>	<u>\$ 1,215,648</u>	<u>\$ 1,875,989</u>	<u>\$ 386,987</u>
Business-type activities:					
General obligation bonds	\$ 345,000	\$	\$ 145,000	\$ 200,000	\$ 100,000
Revenue bonds	<u>14,585,000</u>		<u>570,000</u>	<u>14,015,000</u>	<u>580,000</u>
Total bonds payable	14,930,000	-	715,000	14,215,000	680,000
Accrued sick and vacation	<u>110,591</u>	<u>543,555</u>	<u>542,293</u>	<u>111,853</u>	<u>45,197</u>
Business-type activity - long-term liability	<u>\$ 15,040,591</u>	<u>\$ 543,555</u>	<u>\$ 1,257,293</u>	<u>\$ 14,326,853</u>	<u>\$ 725,197</u>

For the governmental activities, compensated absences are generally liquidated by the General Fund

CHANGES IN LONG TERM LIABILITIES

Component units:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
DDA - general obligation bonds	\$ 665,000	\$	\$ 90,000	\$ 575,000	\$ 85,000
LDFA - reimbursement obligation	<u>764,100</u>			<u>764,100</u>	
Component units - long term liabilities	<u>\$ 1,429,100</u>	<u>\$ -</u>	<u>\$ 90,000</u>	<u>\$ 1,339,100</u>	<u>\$ 85,000</u>

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 3. DETAILED NOTES ON ALL FUNDS (Continued)

F. Segment information

The City has revenue bonds related to the Wastewater and Water System Funds. Investors in the revenue bonds rely solely on the revenue generated by the individual activities for repayment.

Since both the Wastewater System Fund and the Water System Fund are major enterprise funds in the financial statements, all pertinent data is disclosed in the basic financial statements presented.

G. Restricted assets in Downtown Development Authority

In 1998-99, the Adrian Central Business District Improvement Corporation (CBDIC), a local nonprofit corporation, dissolved and transferred all its assets and liabilities to the City of Adrian under the Downtown Development Authority.

The City has invested the former CBDIC funds of \$80,670 at June 30, 2005 which are restricted for future Downtown Adrian projects.

H. Prior period adjustment – Downtown Development Authority

Due to a reconciliation by the State in the computation of tax increment recapture of property taxes for the Downtown Development Authority, the Authority is obligated and has subsequently paid back the affected taxing units the sum of \$154,916. This amount covered several years as shown below:

	<u>YEARS</u>				
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>Total</u>
Excess (deficiency) captured taxes	<u>\$ 56,600</u>	<u>\$ (919)</u>	<u>\$ 57,645</u>	<u>\$ 41,590</u>	<u>\$ 154,916</u>

NOTE 4. OTHER INFORMATION

A. Risk management – insurance pools

The City of Adrian is a member of the Michigan Municipal Liability and Property Pool for its general liability coverage and a member of the Michigan Municipal Workers Compensation Fund for its workers compensation coverage. Both pools are under the Michigan Municipal Program sponsored by the Michigan Municipal League.

The City pays annual premiums to the pools. The pools are self-sustaining through member premiums, and each carries reinsurance through commercial companies for claims in excess to a minimum of \$1,000,000 for specific occurrence, and to a minimum of \$2,000,000 in aggregate in excess of the pool loss reserve fund.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4. OTHER INFORMATION (Continued)

In the event that a single loss should exceed the amount of protection afforded by the pool loss reserve fund, reinsurance, or other insurance carried by the pools, or in the event that a series of losses should deplete or exhaust the loss reserve fund and reinsurance, the payment of valid losses shall be the obligation of the individual member or members of the respective pool against whom the claim was made.

No such event has occurred with the City of Adrian and the pools to which it belongs.

B. Contingent liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

C. Retirement plan

Plan description

The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multi-employer defined benefit pension plan, which provides retirement benefits to all full-time employees of the City. MERS is administered by its Board of Trustees. The actuary for the System is the Gabriel, Roeder, Smith & Company. The Municipal Employees' Retirement Act of 1984, as amended by 1996 Public Act 220 of the State of Michigan, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities; for the City of Adrian, that authority rests with the City. The Municipal Employees' Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to Municipal Employees' Retirement System of Michigan, 447 North Canal Road, Lansing, Michigan 48917.

Funding policy

Employees contribute a percent of their annual compensation, as selected by the municipality. A 3%/5% contribution program was available prior to 1985 and may be continued, but not adopted after 1984. Under this program, the employee contributes 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The City is required to contribute at a actuarially determined rate per City Division; the current rates vary from 7.77% to 30.15% of compensation per Division. The contribution requirements for the City are determined by the System's actuary.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4. OTHER INFORMATION (Continued)

Annual pension cost

For the year ended June 30, 2005, the City's annual pension cost of \$423,912 for MERS was equal to the City's required and actual contributions. The required contribution was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included -

- [a] 8.0% investment rate of return,
- [b] projected salary increases of 4.5% per year compounded annually,
- [c] additional projected salary increases of 0.0% to 4.16% per year, depending on age, attributable seniority/merit, and promotional salary increases,
- [d] the assumption that benefits will increase 2.5% per year (annually) after retirement, for persons under Benefits E-1 or E-2, and
- [e] based under Benefits E-1 or E-2, inflation rate assumption is 2.5% annually

The actuarial value of MERS' assets was determined using techniques that smooth the effects of short term volatility in the market value of investments over a five year period.

Unfunded actuarial accrued liability is amortized by level percentage of payroll contributions over a period of years. The standard amortization period to fund the unfunded liability is 30 years, with this time period reestablished with each annual actuarial valuation. Overfunded actuarial accrued liability is amortized over 10 years.

Three-Year Trend Information

<u>Fiscal Year</u> <u>Ending</u>	<u>Annual</u> <u>Pension</u> <u>Cost (APC)</u>	<u>Percentage</u> <u>of APC</u> <u>Recognized</u>	<u>Net Pension</u> <u>Obligation</u>
6/30/03	\$ 304,518	100%	0
6/30/04	384,343	100%	0
6/30/05	423,912	100%	0

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4. OTHER INFORMATION (Continued)

Actuarial Accrued Liability (as of 12/31/04)	
Retirees and beneficiaries currently receiving benefits	\$ 21,554,843
Terminated employees not yet receiving benefits	1,456,864
Nonvested terminated employees (pending refunds of accumulated member contributions)	76,156
Current employees --	
Accumulated employee contributions including allocated investment income	3,520,616
Employer financed	<u>13,189,631</u>
Total Actuarial Accrued Liability	39,798,110
Net Assets Available for Benefits at Actuarial Value	<u>35,354,281</u>
(Market Value is \$34,509,993)	
Unfunded (Overfunded) Actuarial Accrued Liability	<u>\$ 4,443,829</u>

D. Deferred compensation plan

The government offers its employees a deferred compensation plan (the plan of International City Management Association Retirement Corporation (ICMA)) created in accordance with Internal Revenue Code Section 457, amended August 20, 1996. The plan, available to all government employees, permits them to defer a portion of their salary, up to 100% of annual salary or \$14,000 whichever is less, until future years. Participation in the plan is optional.

Under the deferred compensation plan, all assets and income of the plan described in subsection (b) (6) are held in trust for the exclusive benefit of participants and their beneficiaries.

Investments are managed by the plan's trustees under one of four investment options, or a combination thereof. The choice of the investment option(s) is made by the participants.

The market value of the investments at June 30, 2005 was \$4,498,631.

Since the City has no significant administrative involvement with the assets of the deferred compensation plan, nor does it perform investment functions for the Plan, the deferred compensation plan is not shown in the financial statements.

CITY OF ADRIAN, MICHIGAN
NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE 4. OTHER INFORMATION (Continued)

E. Retirement Health Savings Plan

The City has a health savings plan for non-union and certain union employees. The plan provides funds (savings) to participating employees upon retirement for health insurance premiums and other health costs. The City made contributions to the plan (\$70,429 in fiscal year 2004-05) during employment, but no additional funding is provided after retirement. The plan had investments of \$233,522 at June 30, 2005.

F. Subsequent Events

On September 6, 2005, The City received State approval for a new loan of \$2,040,000. Funding will come from the State Clean Water Revolving Fund Program. The proceeds from the loan will be used for improvement to the wastewater system of the City, and also provide reimbursement to the Wastewater Enterprise Fund for prior year engineering cost, which could improve fund equity.

On October 3, 2005, the City Commission approved borrowing \$900,000 under an installment purchase contract for renovations to Burr Ponds Park. The total estimated project cost is \$1,200,000.

On October 3, 2005, the City Commission also approved paying off the outstanding debt related to the purchase of the Witt Property in the year 2000. The current balance on this loan is \$558,567.

On October 3, 2005, the City Commission authorized the solicitation of bids for debt financing under an installment purchase contract of \$1,500,000. The proceeds are to be used for a new Park and Forestry Building.

CITY OF ADRIAN, MICHIGAN
REQUIRED SUPPLEMENTAL INFORMATION

June 30, 2005

CITY'S DEFINED BENEFIT PENSION PLAN (MERS)

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets [a]</u>	<u>Actuarial Accrued Liability (AAL) Entry Age [b]</u>	<u>Unfunded AAL (UAAL) [b-a]</u>	<u>Funded Ratio [a/b]</u>	<u>Covered Payroll [c]</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/99	\$ 30,087,599	\$ 27,691,045	\$ (2,396,554)	108.7%	\$ 5,579,669	(42.95%)
12/31/00	32,184,883	31,275,689	(909,194)	102.9%	6,119,081	(14.80%)
12/31/01	33,449,560	33,579,131	129,571	99.6%	6,201,978	2.09%
12/31/02	33,080,222	34,645,351	1,565,129	95.4%	6,360,989	24.61%
12/31/03	34,241,034	37,001,028	2,759,994	92.5%	6,847,899	40.3%
12/31/04	35,354,281	39,798,110	4,443,829	88.8%	7,219,754	61.5%

CITY OF ADRIAN, MICHIGAN

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special revenue funds are used to account for specific revenues that are legally restricted to expenditure for a particular purpose.

MUNICIPAL STREET FUND: This fund was established to demonstrate that all revenues from the millage for road improvements were used as specified.

COMMUNITY DEVELOPMENT FUND: This fund was established to demonstrate that all revenues from the Community Development Grant were used as specified. The Housing Loan Program continues to provide revenue as the loans are repaid.

ECONOMIC DEVELOPMENT FUND: This fund was established to demonstrate that all revenues from the local gas utility company were used as specified.

OMNI FUND: This fund was established to show revenues and expenditures for the federally funded OMNI Drug Unit.

PERMANENT FUNDS

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the City's programs.

ENDOWMENT TRUST FUND: This fund is used to account for principal trust amounts received for which interest income earned is used for donor specified programs related to the City.

PERPETUAL CARE FUND: This fund is used to account for principal trust amounts received for which interest income earned is used for expenditures pertaining to the City's cemetery.

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

SPECIAL REVENUE FUNDS

<u>ASSETS</u>	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Cash and cash equivalents	\$ 61,050	\$ 204,334	\$ 137,782	\$ 166,755	\$ 569,921
Investments		40,401			40,401
Loans receivable		229,261			229,261
Accounts receivable – other		63,389			63,389
Cemetery lots					
Due from other funds			4,100		4,100
Total assets	<u>\$ 61,050</u>	<u>\$ 537,385</u>	<u>\$ 141,882</u>	<u>\$ 166,755</u>	<u>\$ 907,072</u>
 <u>LIABILITIES AND FUND BALANCES</u>					
Liabilities:					
Vouchers payable	\$	\$ 6,978	\$ 1,524	\$ 3,583	\$ 12,085
Accrued liabilities		6,474			6,474
Due to other funds	<u>36,330</u>	<u>17,934</u>	<u>11,250</u>		<u>65,514</u>
Total liabilities	<u>36,330</u>	<u>31,386</u>	<u>12,774</u>	<u>3,583</u>	<u>84,073</u>
Fund balances:					
Reserved for lots inventory					
Reserved for perpetual care					
Reserved for endowments					
Reserved for loans		229,261			229,261
Reserved for encumbrances		45			45
Unreserved, undesignated	<u>24,720</u>	<u>276,693</u>	<u>129,108</u>	<u>163,172</u>	<u>593,693</u>
Total fund balances	<u>24,720</u>	<u>505,999</u>	<u>129,108</u>	<u>163,172</u>	<u>822,999</u>
Total liabilities and fund balance	<u>\$ 61,050</u>	<u>\$ 537,385</u>	<u>\$ 141,882</u>	<u>\$ 166,755</u>	<u>\$ 907,072</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

PERMANENT FUNDS

Endowment Trust	Perpetual Care	Total	Totals Nonmajor Governmental Funds	
			2005	2004
\$ 3,230	\$ 20,809	\$ 24,039	\$ 593,960	\$ 1,093,902
126,135	732,459	858,594	898,995	908,276
			229,261	256,888
			63,389	164,637
	7,499	7,499	7,499	7,499
<u>22,678</u>		<u>22,678</u>	<u>26,778</u>	<u>47,084</u>
<u>\$ 152,043</u>	<u>\$ 760,767</u>	<u>\$ 912,810</u>	<u>\$ 1,819,882</u>	<u>\$ 2,478,286</u>
\$	\$	\$	\$ 12,085	\$ 11,019
			6,474	2,664
<u> </u>	<u>183</u>	<u>183</u>	<u>65,697</u>	<u>528,763</u>
<u>-</u>	<u>183</u>	<u>183</u>	<u>84,256</u>	<u>542,446</u>
	7,499	7,499	7,499	7,499
152,043	753,085	753,085	753,085	751,584
		152,043	152,043	198,898
			229,261	256,888
			45	8,878
<u> </u>	<u> </u>	<u> </u>	<u>593,693</u>	<u>712,093</u>
<u>152,043</u>	<u>760,584</u>	<u>912,627</u>	<u>1,735,626</u>	<u>1,935,840</u>
<u>\$ 152,043</u>	<u>\$ 760,767</u>	<u>\$ 912,810</u>	<u>\$ 1,819,882</u>	<u>\$ 2,478,286</u>

(PAGE 1 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

SPECIAL REVENUE FUNDS

	<u>Municipal Streets</u>	<u>Community Development</u>	<u>Economic Development</u>	<u>OMNI</u>	<u>Total</u>
Revenues:					
Taxes	\$ 404,941	\$	\$	\$	\$ 404,941
Intergovernmental – Federal		1,200			1,200
Investment earnings	6,186	9,535	475	648	16,844
Other		5,543	123,000	81,104	209,647
Contribution from DDA		<u>15,446</u>			<u>15,446</u>
Total revenues	<u>411,127</u>	<u>31,724</u>	<u>123,475</u>	<u>81,752</u>	<u>648,078</u>
Expenditures:					
Community/Economic Development		231,610	44,663		276,273
Public safety				65,246	65,246
Other services					
Total expenditures	<u>-</u>	<u>231,610</u>	<u>44,663</u>	<u>65,246</u>	<u>341,519</u>
Excess (deficiency) of revenues over (under) expenditures	<u>411,127</u>	<u>(199,886)</u>	<u>78,812</u>	<u>16,506</u>	<u>306,559</u>
Other financing sources (uses):					
Transfers in			4,100		4,100
Transfers out	<u>(393,131)</u>	<u>(36,388)</u>	<u>(36,000)</u>		<u>(465,519)</u>
Total other financing sources (uses)	<u>(393,131)</u>	<u>(36,388)</u>	<u>(31,900)</u>	<u>-</u>	<u>(461,419)</u>
Net changes in fund balances	17,996	(236,274)	46,912	16,506	(154,860)
Fund balances – beginning of year	<u>6,724</u>	<u>742,273</u>	<u>82,196</u>	<u>146,666</u>	<u>977,859</u>
Fund balances – end of year	<u>\$ 24,720</u>	<u>\$ 505,999</u>	<u>\$ 129,108</u>	<u>\$ 163,172</u>	<u>\$ 822,999</u>

The notes to the financial statements are an integral part of this statement.

(PAGE 2 OF 2)
CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

NONMAJOR GOVERNMENTAL FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year ended June 30, 2004

PERMANENT FUNDS

Endowment <u>Trust</u>	Perpetual <u>Care</u>	<u>Total</u>	Totals Nonmajor Governmental Funds <u>2005</u>	<u>2004</u>
\$	\$	\$	\$	\$
			404,941	391,734
1,451	18,943	20,394	1,200	78,597
1,579	12,558	14,137	37,238	37,531
			223,784	601,170
			<u>15,446</u>	
<u>3,030</u>	<u>31,501</u>	<u>34,531</u>	<u>682,609</u>	<u>1,109,032</u>
			276,273	615,400
<u>49,891</u>		<u>49,891</u>	65,246	63,728
<u>49,891</u>	-	<u>49,891</u>	<u>49,891</u>	<u>101</u>
			<u>391,410</u>	<u>679,229</u>
<u>(46,861)</u>	<u>31,501</u>	<u>(15,360)</u>	<u>291,199</u>	<u>429,803</u>
6		6	4,106	49,866
	<u>(30,000)</u>	<u>(30,000)</u>	<u>(495,519)</u>	<u>(943,028)</u>
<u>6</u>	<u>(30,000)</u>	<u>(29,994)</u>	<u>(491,413)</u>	<u>(893,162)</u>
(46,855)	1,501	(45,354)	(200,214)	(463,359)
<u>198,898</u>	<u>759,083</u>	<u>957,981</u>	<u>1,935,840</u>	<u>2,399,199</u>
<u>\$ 152,043</u>	<u>\$ 760,584</u>	<u>\$ 912,627</u>	<u>\$ 1,735,626</u>	<u>\$ 1,935,840</u>

CITY OF ADRIAN, MICHIGAN

MUNICIPAL STREET SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax	\$ 388,131	\$ 388,131	\$ 404,941	\$ 16,810
Investment earnings	<u>5,000</u>	<u>5,000</u>	<u>6,186</u>	<u>1,186</u>
Total revenues	393,131	393,131	411,127	17,996
Expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess of revenues over expenditures	393,131	393,131	411,127	17,996
Other financing uses:				
Transfers out	<u>(393,131)</u>	<u>(393,131)</u>	<u>(393,131)</u>	<u>-</u>
Net change in fund balance	-	-	17,996	17,996
Fund balance - beginning of year	<u>6,724</u>	<u>6,724</u>	<u>6,724</u>	<u>-</u>
Fund balance - end of year	<u>\$ 6,724</u>	<u>\$ 6,724</u>	<u>\$ 24,720</u>	<u>\$ 17,996</u>

CITY OF ADRIAN, MICHIGAN
COMMUNITY DEVELOPMENT SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$ 250,766	\$ 250,766	\$ 1,200	\$ (249,566)
Investment earnings	20,000	20,000	9,535	(10,465)
Other	2,000	75,361	5,543	(69,818)
Contribution from DDA – TIF	<u>15,446</u>	<u>15,446</u>	<u>15,446</u>	<u> </u>
Total revenues	288,212	361,573	31,724	(329,849)
Expenditures:				
Other services:				
Community development	<u>(262,728)</u>	<u>(336,089)</u>	<u>(231,610)</u>	<u>104,479</u>
Excess (deficiency) of revenues over (under) expenditures	<u>25,484</u>	<u>25,484</u>	<u>(199,886)</u>	<u>(225,370)</u>
Other financing sources (uses):				
Transfers out	<u>(36,388)</u>	<u>(36,388)</u>	<u>(36,388)</u>	<u> </u>
Total other financing sources (uses)	<u>(36,388)</u>	<u>(36,388)</u>	<u>(36,388)</u>	<u> </u>
Net change in fund balance	(10,904)	(10,904)	(236,274)	(225,370)
Fund balance - beginning of year	<u>742,273</u>	<u>742,273</u>	<u>742,273</u>	<u> </u>
Fund balance - end of year	<u>\$ 731,369</u>	<u>\$ 731,369</u>	<u>\$ 505,999</u>	<u>\$ (225,370)</u>

CITY OF ADRIAN, MICHIGAN

ECONOMIC DEVELOPMENT SPECIAL REVENUE FUND

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL**

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Intergovernmental	\$	\$ 605,000	\$	\$ (605,000)
Investment earnings	150	150	475	325
Donations	<u>125,000</u>	<u>125,000</u>	<u>123,000</u>	<u>(2,000)</u>
Total revenues	125,150	730,150	123,475	(606,675)
Expenditures:				
Other services:				
Economic development	<u>120,150</u>	<u>727,168</u>	<u>44,663</u>	<u>682,505</u>
Excess of revenues over expenditures	<u>5,000</u>	<u>2,982</u>	<u>78,812</u>	<u>75,830</u>
Other financing sources (uses):				
Transfers in		4,140	4,100	(40)
Transfers out	<u>(5,000)</u>	<u>(16,000)</u>	<u>(36,000)</u>	<u>(20,000)</u>
Total other financing sources (uses)	<u>(5,000)</u>	<u>(11,860)</u>	<u>(31,900)</u>	<u>(20,040)</u>
Net change in fund balance		(8,878)	46,912	55,790
Fund balance - beginning of year	<u>82,196</u>	<u>82,196</u>	<u>82,196</u>	<u>-</u>
Fund balance - end of year	<u>\$ 82,196</u>	<u>\$ 73,318</u>	<u>\$ 129,108</u>	<u>\$ 55,790</u>

CITY OF ADRIAN, MICHIGAN

OMNI SPECIAL REVENUE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL

For Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
OMNI forfeitures	\$ 52,500	\$ 52,500	\$ 64,454	\$ 11,954
Investment earnings	500	500	648	148
Other	<u>6,000</u>	<u>6,000</u>	<u>16,650</u>	<u>10,650</u>
Total revenues	59,000	59,000	81,752	22,752
Expenditures:				
Public safety, OMNI	<u>59,000</u>	<u>59,000</u>	<u>65,246</u>	<u>(6,246)</u>
Excess of revenues over expenditures	-	-	16,506	16,506
Fund balance - beginning of year	<u>146,666</u>	<u>146,666</u>	<u>146,666</u>	-
Fund balance - end of year	<u>\$ 146,666</u>	<u>\$ 146,666</u>	<u>\$ 163,172</u>	<u>\$ 16,506</u>

CITY OF ADRIAN, MICHIGAN
NON MAJOR ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financial, acquisition, operation and maintenance of City activities that are entirely or predominantly self-supporting from user charges.

CAPITAL PROJECTS REVOLVING FUND: This fund is used to provide financing for capital projects of the City.

DIAL-A-RIDE SYSTEM FUND: This fund is used to account for the operation of the City's public transportation system. State and federal grants, farebox revenues and a City subsidy provide funding for the system

AUTOMOBILE PARKING SYSTEM FUND: This fund is used to account for the activities of the auto parking system. Parking fees and fines are the main revenue sources. Expenses are related to maintenance and operation of the parking lots.

STORM WATER UTILITY FUND: This fund is used to account for the acquisition, operation and maintenance of the City's storm water system.

CITY OF ADRIAN, MICHIGAN
COMBINING STATEMENT OF NET ASSETS

NONMAJOR ENTERPRISE FUNDS

June 30, 2005
With Comparative Totals for June 30, 2004

ASSETS	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2005	2004
Current assets:						
Cash and cash equivalents	\$ 254,547	\$	\$ 53,999	\$ 7,605	\$ 316,151	\$ 175,696
Receivables:						
Special assessments	407,655				407,655	481,602
Due from other funds			33,247		33,247	49,611
Due from other governments		71,838			71,838	55,580
Accounts			153		153	
Restricted assets - cash and investments:						
Bond interest and redemption						
account - cash				5,973	5,973	53,383
Total current assets	662,202	71,838	87,399	13,578	835,017	815,872
Noncurrent assets:						
Capital assets:						
Land			638,500		638,500	638,500
Utility systems				2,380,243	2,380,243	2,380,243
Land improvements			720,573	861,435	1,582,008	1,582,008
Equipment		507,988	156,033		664,021	664,021
Less: Accumulated depreciation		(310,858)	(484,861)	(1,177,283)	(1,973,002)	(1,861,877)
Net capital assets	-	197,130	1,030,245	2,064,395	3,291,770	3,402,895
Total noncurrent assets	-	197,130	1,030,245	2,064,395	3,291,770	3,402,895
Total assets	\$ 662,202	\$ 268,968	\$ 1,117,644	\$ 2,077,973	\$ 4,126,787	\$ 4,218,767

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds 2005	2004
LIABILITIES						
Current liabilities:						
Vouchers payable	\$	\$ 4,336	\$ 2,828	\$ 3,834	\$ 10,998	\$ 7,562
Accrued liabilities			970	416	1,386	2,527
Due to other funds	53,240	61,153		3,257	117,650	128,129
Due to other governments		6,349			6,349	5,427
General obligation bonds payable -- current				<u>100,000</u>	<u>100,000</u>	<u>145,000</u>
	53,240	71,838	3,798	107,507	236,383	288,645
Current liabilities payable from restricted assets:						
Accrued interest				<u>5,973</u>	<u>5,973</u>	<u>7,122</u>
Total current liabilities	<u>53,240</u>	<u>71,838</u>	<u>3,798</u>	<u>113,480</u>	<u>242,356</u>	<u>295,767</u>
Noncurrent liabilities:						
General obligation bonds				<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total noncurrent liabilities				<u>100,000</u>	<u>100,000</u>	<u>200,000</u>
Total liabilities	<u>53,240</u>	<u>71,838</u>	<u>3,798</u>	<u>213,480</u>	<u>342,356</u>	<u>495,767</u>
NET ASSETS						
Invested in capital assets net of related debt		197,130	1,030,245	1,864,395	3,091,770	3,057,895
Restricted for debt service						46,261
Unrestricted	<u>608,962</u>		<u>83,601</u>	<u>98</u>	<u>692,661</u>	<u>618,844</u>
Total net assets	<u>\$ 608,962</u>	<u>\$ 197,130</u>	<u>\$ 1,113,846</u>	<u>\$ 1,864,493</u>	<u>\$ 3,784,431</u>	<u>\$ 3,723,000</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS

NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

	Capital Projects <u>Revolving Fund</u>	Dial-A-Ride <u>System</u>	Automobile <u>Parking System</u>	Storm Water <u>Utility</u>	Totals Nonmajor Enterprise Funds 2005	2004
Operating revenues:						
Charges for services	\$	\$ 77,257	\$ 80,239	\$ 363,813	\$ 521,309	\$ 438,471
Miscellaneous		<u>250</u>			<u>250</u>	
Total operating revenues	-	<u>77,507</u>	<u>80,239</u>	<u>363,813</u>	<u>521,559</u>	<u>438,471</u>
Operating expenses:						
Cost of services		436,660	126,791	291,563	855,014	631,881
Depreciation		<u>54,000</u>	<u>16,093</u>	<u>41,031</u>	<u>111,124</u>	<u>108,391</u>
Total operating expenses	-	<u>490,660</u>	<u>142,884</u>	<u>332,594</u>	<u>966,138</u>	<u>740,272</u>
Operating income (loss)	-	<u>(413,153)</u>	<u>(62,645)</u>	<u>31,219</u>	<u>(444,579)</u>	<u>(301,801)</u>
Nonoperating revenues (expenses):						
Intergovernmental - State		170,104			170,104	162,797
Intergovernmental - Federal		<u>52,354</u>			<u>52,354</u>	<u>42,674</u>
Interest revenue	29,028		32	28	29,088	27,784
Interest expense			<u>(9,797)</u>	<u>(11,985)</u>	<u>(21,782)</u>	<u>(20,740)</u>
Total nonoperating revenues (expenses)	<u>29,028</u>	<u>222,458</u>	<u>(9,765)</u>	<u>(11,957)</u>	<u>229,764</u>	<u>212,515</u>

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
					2005 2004
Income (loss) before contribution and transfers	\$ 29,028	\$ (190,695)	\$ (72,410)	\$ 19,262	\$ (214,815) \$ (89,286)
Capital contribution - State Transfers in		136,695	123,151	16,400	50,111 169,127
Change in net assets	29,028	(54,000)	50,741	35,662	129,952
Total net assets - beginning of year	579,934	251,130	1,063,105	1,828,831	3,723,000
Total net assets - end of year	\$ 608,962	\$ 197,130	\$ 1,113,846	\$ 1,864,493	\$ 3,784,431 \$ 3,723,000

CITY OF ADRIAN, MICHIGAN
COMBINING STATEMENT OF CASH FLOWS
NONMAJOR ENTERPRISE FUNDS

For Fiscal Year Ended June 30, 2005
With Comparative Totals for Fiscal Year Ended June 30, 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds
					2005
					2004
Cash flows from operating activities:					
Cash received from customers	\$	\$ 77,507	\$ 67,010	\$ 376,853	\$ 521,370
Cash paid to suppliers		(212,199)	(71,533)	(234,461)	(518,193)
Cash paid to employees		(223,465)	(52,395)	(67,084)	(342,944)
Net cash provided by (used in) operating activities	-	(358,157)	(56,918)	75,308	(339,767)
Cash flows from noncapital financing activities:					
Cash received - Federal		45,639			45,639
Cash received - State		160,561			160,561
Transfers from General Fund		151,957	123,151	16,400	291,508
Net cash provided by noncapital financing activities	-	358,157	123,151	16,400	497,708
Cash flows from capital and related financing activities:					
Principal paid on general obligation bonds			(50,000)	(95,000)	(145,000)
Interest paid and agent fees on general obligation bonds			(10,946)	(11,985)	(22,931)
Special assessments	99,187				99,187
Special assessment revenue provided to other funds	(25,240)				(25,240)
Net cash provided by (used in) capital and related financing activities	73,947	-	(60,946)	(106,985)	(93,984)

	Capital Projects Revolving Fund	Dial-A-Ride System	Automobile Parking System	Storm Water Utility	Totals Nonmajor Enterprise Funds 2005	2004
Cash flows from investing activities:						
Interest income	\$ 29,028	\$ -	\$ 32	\$ 28	\$ 29,088	\$ 27,784
Net cash provided by investing activities	29,028	-	32	28	29,088	27,784
Net increase (decrease) in cash and cash equivalents	102,975		5,319	(15,249)	93,045	94,613
Cash and cash equivalents at beginning of year	151,572	-	48,680	28,827	229,079	134,466
Cash and cash equivalents at end of year	\$ 254,547	\$ -	\$ 53,992	\$ 13,578	\$ 322,124	\$ 229,079

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income (loss)	\$ -	\$ (413,153)	\$ (62,645)	\$ 31,219	\$ (444,579)	\$ (301,801)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:						
Depreciation						
Change In Assets and Liabilities:		54,000	16,093	41,031	111,124	108,391
(Increase) decrease in due from other funds			(13,076)	13,040	(36)	(49,611)
(Increase) decrease in accounts receivable			(153)		(153)	
Increase (decrease) in vouchers payable		74	2,262	1,100	3,436	(5,545)
Increase (decrease) in due to County		922			922	905
Increase (decrease) in accrued payroll and liabilities			601	(1,741)	(1,140)	
Increase (decrease) in due to other funds				(9,341)	(9,341)	1,570
Total adjustments		54,996	5,727	44,089	104,812	12,118
Net cash provided by (used in) operating activities	\$ -	\$ (358,157)	\$ (56,918)	\$ 75,308	\$ (339,767)	\$ (233,973)

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash	\$ 254,547	\$ 151,572
Receivables:		
Special assessments	<u>407,655</u>	<u>481,602</u>
Total assets	<u>\$ 662,202</u>	<u>\$ 633,174</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Due to General Fund	<u>\$ 53,240</u>	<u>\$ 53,240</u>
Total liabilities	<u>53,240</u>	<u>53,240</u>
Net assets – unrestricted	<u>608,962</u>	<u>579,934</u>
Total net assets	<u>\$ 608,962</u>	<u>\$ 579,934</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues	\$ -	\$ -
Operating expenses	-	-
Operating income	-	-
Nonoperating revenues (expenses):		
Interest revenue	29,028	27,563
Change in net assets	29,028	27,563
Total net assets – beginning of year	579,934	552,371
Total net assets – end of year	<u>\$ 608,962</u>	<u>\$ 579,934</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
CAPITAL PROJECTS REVOLVING ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2005 and 2004
INCREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	\$ -	\$ -
Cash flows from noncapital financing activities:		
Net cash provided by (used in) noncapital financing activities	-	-
Cash flows from capital and related financing activities:		
Cash received on special assessment	99,187	153,424
Special assessment revenue provided to other funds	(25,240)	(66,484)
Net cash provided by capital and related financing activities	73,947	86,940
Cash flows from investing activities:		
Interest	29,028	27,563
Net increase in cash and cash equivalents	102,975	114,503
Cash and cash equivalents at beginning of year	151,572	37,069
Cash and cash equivalents at end of year	<u>\$ 254,547</u>	<u>\$ 151,572</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES**

Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by (used in) operating activities	-	-
Net cash provided by (used in) operating activities	<u>\$ -</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Due from other governments:		
Federal	\$ 23,044	\$ 16,329
State	<u>48,794</u>	<u>39,251</u>
Total current assets	<u>71,838</u>	<u>55,580</u>
Noncurrent assets:		
Capital assets:		
Equipment	507,988	507,988
Accumulated depreciation	<u>(310,858)</u>	<u>(256,858)</u>
Net capital assets	<u>197,130</u>	<u>251,130</u>
Total noncurrent assets	<u>197,130</u>	<u>251,130</u>
Total assets	<u>\$ 268,968</u>	<u>\$ 306,710</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 4,336	\$ 4,262
Due to other governments:		
County	6,349	5,427
Due to other funds – General	<u>61,153</u>	<u>45,891</u>
Total current liabilities	<u>71,838</u>	<u>55,580</u>
Net assets:		
Invested in net assets, net of related debt	<u>197,130</u>	<u>251,130</u>
Total net assets	<u>\$ 197,130</u>	<u>\$ 251,130</u>

CITY OF ADRIAN, MICHIGAN

DIAL-A-RIDE SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues:		
Charges for services	\$ 77,257	\$ 62,691
Other	<u>250</u>	
Total operating revenues	<u>77,507</u>	<u>62,691</u>
Operating expenses:		
Cost of services:		
Salaries and wages	223,465	218,420
Fringe benefits	90,651	67,809
Contracted services	25,252	18,040
Supplies and materials	42,731	32,451
Telephone	2,697	2,721
Insurance	7,824	5,215
Advertising	104	203
Maintenance	37,999	39,755
Rent	3,937	3,600
Administrative and accounting	2,000	1,500
Depreciation	<u>54,000</u>	<u>50,478</u>
Total operating expenses	<u>490,660</u>	<u>440,192</u>
Operating loss	<u>(413,153)</u>	<u>(377,501)</u>
Nonoperating revenues:		
Intergovernmental - State	170,104	162,797
Intergovernmental - Federal	<u>52,354</u>	<u>42,674</u>
Total nonoperating revenues	<u>222,458</u>	<u>205,471</u>
Loss before contributions and transfers	(190,695)	(172,030)
Transfers in	136,695	121,552
Capital contribution - State		<u>50,111</u>
Change in net assets	(54,000)	(367)
Total net assets - beginning of year	<u>251,130</u>	<u>251,497</u>
Total net assets - end of year	<u>\$ 197,130</u>	<u>\$ 251,130</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
DIAL-A-RIDE SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2005 and 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 77,507	\$ 62,691
Cash paid to suppliers	(212,199)	(172,441)
Cash paid to employees	<u>(223,465)</u>	<u>(218,420)</u>
Net cash used in operating activities	<u>(358,157)</u>	<u>(328,170)</u>
Cash flows from noncapital financing activities:		
Grant received – Federal	45,639	41,566
Grant received – State	160,561	166,770
Transfer from General Fund	<u>151,957</u>	<u>119,834</u>
Net cash provided by noncapital financing activities	<u>358,157</u>	<u>328,170</u>
Net increase (decrease) in cash and cash equivalents	-	-
Cash and cash equivalents at beginning of year	<u>-</u>	<u>-</u>
Cash and cash equivalents at end of year	<u>\$ -</u>	<u>\$ -</u>

RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES

Operating loss	\$ (413,153)	\$ (377,501)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation	54,000	50,478
Change in Assets and Liabilities:		
Increase (decrease) in vouchers payable	74	(2,052)
Increase (decrease) in due to County	<u>922</u>	<u>905</u>
Total adjustments	<u>54,996</u>	<u>49,331</u>
Net cash used in operating activities	<u>\$ (358,157)</u>	<u>\$ (328,170)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash and cash equivalents	\$ 53,999	\$ 1,270
Due from General Fund	33,247	20,171
Accounts receivable	<u>153</u>	<u></u>
Total current assets	<u>87,399</u>	<u>21,441</u>
Noncurrent assets:		
Restricted assets:		
Bond and redemption account	<u>-</u>	<u>47,410</u>
Capital assets:		
Land	638,500	638,500
Land improvements	720,573	720,573
Equipment	156,033	156,033
Less: Accumulated depreciation	<u>(484,861)</u>	<u>(468,768)</u>
Net capital assets	<u>1,030,245</u>	<u>1,046,338</u>
Total noncurrent assets	<u>1,030,245</u>	<u>1,093,748</u>
Total assets	<u>\$ 1,117,644</u>	<u>\$ 1,115,189</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 2,828	\$ 566
Accrued payroll	970	369
General obligation bonds payable – current	<u></u>	<u>50,000</u>
Total current liabilities	3,798	50,935
Current liabilities payable from restricted assets:		
Accrued interest payable	<u></u>	<u>1,149</u>
Total liabilities	<u>3,798</u>	<u>52,084</u>
Net assets:		
Invested in capital assets, net of related debt	1,030,245	996,338
Restricted for debt service		46,261
Unrestricted	<u>83,601</u>	<u>20,506</u>
Total net assets	<u>\$ 1,113,846</u>	<u>\$ 1,063,105</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues:		
Charges for services	\$ 80,239	\$ 111,815
Total operating revenues	<u>80,239</u>	<u>111,815</u>
Operating expenses:		
Cost of services:		
Salaries and wages	52,996	38,326
Fringe benefits	18,099	12,273
Overhead expense	6,099	2,747
Supplies	11,114	10,610
Contracted services	<u>10,087</u>	<u>1,965</u>
Insurance	298	407
Electricity	10,512	9,832
Rent	4,586	3,021
Administration	13,000	12,360
Depreciation	<u>16,093</u>	<u>16,883</u>
Total operating expenses	<u>142,884</u>	<u>108,424</u>
Operating income	<u>(62,645)</u>	<u>3,391</u>
Nonoperating revenues (expenses):		
Interest income	32	82
Interest expense	(9,272)	(4,020)
Bond agent expense	<u>(525)</u>	<u>(525)</u>
Total nonoperating revenues (expenses)	<u>(9,765)</u>	<u>(4,463)</u>
Loss before transfers	(72,410)	(1,072)
Transfer in	<u>123,151</u>	<u>47,575</u>
Change in net assets	50,741	46,503
Total net assets – beginning of year	<u>1,063,105</u>	<u>1,016,602</u>
Total net assets – end of year	<u>\$ 1,113,846</u>	<u>\$ 1,063,105</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

AUTOMOBILE PARKING SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2005 and 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 67,010	\$ 91,644
Cash paid to suppliers	(71,533)	(56,908)
Cash paid to employees	<u>(52,395)</u>	<u>(38,548)</u>
Net cash used in operating activities	<u>(56,918)</u>	<u>(3,812)</u>
Cash flows from noncapital financing activities:		
Transfer from General Fund	<u>123,151</u>	<u>47,575</u>
Cash flows from capital and related financing activities:		
Interest paid and agent fees on general obligation bonds	(10,946)	(5,688)
Principal paid on general obligation bonds	<u>(50,000)</u>	<u>(50,000)</u>
Net cash used in capital and related financing activities	<u>(60,946)</u>	<u>(55,688)</u>
Cash flows from investing activities:		
Interest	<u>32</u>	<u>82</u>
Net increase (decrease) in cash and cash equivalents	5,319	(11,843)
Cash and cash equivalents at beginning of year	<u>48,680</u>	<u>60,523</u>
Cash and cash equivalents at end of year	<u>\$ 53,999</u>	<u>\$ 48,680</u>

RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES

Operating income (loss)	<u>\$ (62,645)</u>	<u>\$ 3,391</u>
Adjustments to reconcile operating income (loss) to net cash used in operating activities:		
Depreciation	16,093	16,883
Change in Assets and Liabilities:		
(Increase) decrease in due from other funds	(13,076)	(20,171)
(Increase) decrease in accounts receivable	(153)	
Increase (decrease) vouchers payable	2,262	145
Increase (decrease) in accrued payroll	601	(222)
Increase (decrease) in due to other funds	<u>(3,838)</u>	<u>(3,838)</u>
Total adjustments	<u>5,727</u>	<u>(7,203)</u>
Net cash used in operating activities	<u>\$ (56,918)</u>	<u>\$ (3,812)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash and cash equivalents	\$ 7,605	\$ 22,854
Due from other funds – Local Streets		29,440
Restricted assets:		
Bond interest - cash	<u>5,973</u>	<u>5,973</u>
Total current assets	<u>13,578</u>	<u>58,267</u>
Noncurrent assets:		
Capital assets:		
Utility systems	2,380,243	2,380,243
Improvements other than buildings	861,435	861,435
Less: Accumulated depreciation	<u>(1,177,283)</u>	<u>(1,136,251)</u>
Total capital assets	<u>2,064,395</u>	<u>2,105,427</u>
Total noncurrent assets	<u>2,064,395</u>	<u>2,105,427</u>
Total assets	<u>\$ 2,077,973</u>	<u>\$ 2,163,694</u>
 <u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Vouchers payable	\$ 3,834	\$ 2,734
Accrued payroll	416	2,158
Due to other funds – General	3,257	28,998
General obligation bonds payable – current	<u>100,000</u>	<u>95,000</u>
Total current liabilities	107,507	128,890
Current liability - payable from restricted asset:		
Accrued interest	5,973	5,973
Noncurrent liabilities:		
General obligation bonds payable	<u>100,000</u>	<u>200,000</u>
Total liabilities	<u>213,480</u>	<u>334,863</u>
Net assets:		
Invested in capital asset - net of related debt	1,864,395	1,810,427
Unrestricted	<u>98</u>	<u>18,404</u>
Total net assets	<u>\$ 1,864,493</u>	<u>\$ 1,828,831</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

STORM WATER UTILITY ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
IN FUND NET ASSETS**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues:		
Charges for services	\$ 363,813	\$ 263,965
Operating expenses:		
Cost of services:		
Salaries and wages	65,342	54,634
Overhead expense	20,402	15,936
Supplies	38,191	24,817
Contracted services	133,854	31,935
Rent	11,405	13,259
Administration	22,369	10,045
Depreciation	<u>41,031</u>	<u>41,030</u>
Total operating expenses	<u>332,594</u>	<u>191,656</u>
Operating income	<u>31,219</u>	<u>72,309</u>
Nonoperating revenues (expenses):		
Interest revenue	28	139
Interest expense	(11,685)	(15,895)
Bond issuance cost/pay agent fees	<u>(300)</u>	<u>(300)</u>
Total nonoperating revenues (expenses)	<u>(11,957)</u>	<u>(16,056)</u>
Income before transfers	19,262	56,253
Transfers in	<u>16,400</u>	<u> </u>
Change in net assets	35,662	56,253
Net assets – beginning of year	<u>1,828,831</u>	<u>1,772,578</u>
Net assets – end of year	<u>\$ 1,864,493</u>	<u>\$ 1,828,831</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
STORM WATER UTILITY ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2005 and 2004
DECREASE IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 376,853	\$ 234,525
Cash paid to suppliers	(234,461)	(83,674)
Cash paid to employees	<u>(67,084)</u>	<u>(52,842)</u>
Net cash provided by operating activities	<u>75,308</u>	<u>98,009</u>
Cash from noncapital financing activities:		
Transfers from General Fund	<u>16,400</u>	<u>-</u>
Cash flows from financing activities:		
Interest paid and agent fees on general obligation bonds	(11,985)	(16,195)
Bond principal payment	<u>(95,000)</u>	<u>(90,000)</u>
Net cash used in capital and related financing activities	<u>(106,985)</u>	<u>(106,195)</u>
Cash flows from investing activities:		
Interest	<u>28</u>	<u>139</u>
Net decrease in cash and cash equivalents	(15,249)	(8,047)
Cash and cash equivalents at beginning of year	<u>28,827</u>	<u>36,874</u>
Cash and cash equivalents at end of year	<u>\$ 13,578</u>	<u>\$ 28,827</u>

**RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY OPERATING ACTIVITIES**

Operating income	\$ 31,219	\$ 72,309
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	41,031	41,030
Changes in Assets and Liabilities:		
(Increase) decrease in due from other funds	13,040	(29,440)
Increase (decrease) in vouchers payable	1,100	(3,638)
Increase (decrease) in accrued liabilities	(1,741)	1,792
Increase (decrease) in due to other funds	<u>(9,341)</u>	<u>15,956</u>
Total adjustments	<u>44,089</u>	<u>25,700</u>
Net cash provided by operating activities	<u>\$ 75,308</u>	<u>\$ 98,009</u>

CITY OF ADRIAN, MICHIGAN

MAJOR ENTERPRISE FUNDS

The function of the Enterprise Funds is to record the financing, acquisition, operation and maintenance of City activities that are entirely or predominantly self-supporting from user charges.

WASTEWATER SYSTEM FUND: This fund is used to account for the acquisition, operation and maintenance of the City's wastewater system.

WATER SYSTEM FUND: This fund is used to account for the acquisition, operation and maintenance of the city's water system.

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF NET ASSETS

June 30, 2005 and 2004

ASSETS	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash and cash equivalents	\$ 491,199	\$ 414,780
Investments	1,205,571	2,311,523
Receivables:		
Accounts	346,513	75,463
Deferred assessments	68,501	68,501
Due from other funds		182,753
Prepaid expense	4,450	5,269
Restricted assets available for current liabilities:		
Bond interest and redemption account – investment	<u>408,562</u>	<u>403,622</u>
Total current assets	<u>2,524,796</u>	<u>3,461,911</u>
Noncurrent assets:		
Restricted investments:		
Replacement account – investment	500,000	500,000
DWRP Bond receivable	<u> </u>	<u>217,025</u>
Total noncurrent restricted assets	<u>500,000</u>	<u>717,025</u>
Capital assets:		
Land	163,164	163,164
Sewer system	36,684,699	26,194,452
Less: Accumulated depreciation	(14,059,513)	(13,080,566)
Construction in progress	<u>539,423</u>	<u>9,521,316</u>
Net capital assets	<u>23,327,773</u>	<u>22,798,366</u>
Total noncurrent assets	<u>23,827,773</u>	<u>23,515,391</u>
Total assets	<u>\$ 26,352,569</u>	<u>\$ 26,977,302</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
WASTEWATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

LIABILITIES	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current liabilities:		
Vouchers payable	\$ 151,993	\$ 38,309
Accrued payroll	28,237	1,523
Due to other funds:		
General	23,662	23,148
Water	295,313	17,563
Information Technology	26,803	
DWRF Bonds payable – current	<u>355,000</u>	<u>350,000</u>
Total current liabilities	<u>881,008</u>	<u>430,543</u>
Current liabilities – payable from restricted assets:		
Accrued interest	<u>53,562</u>	<u>53,622</u>
Noncurrent liabilities:		
Accrued sick and vacation	31,016	44,919
DWRF Bonds payable	<u>8,215,000</u>	<u>8,570,000</u>
Total noncurrent liabilities	<u>8,246,016</u>	<u>8,614,919</u>
Total liabilities	<u>9,180,586</u>	<u>9,099,084</u>
NET ASSETS		
Invested in capital assets, net of related debt	14,757,773	14,095,391
Restricted for debt service	355,000	350,000
Restricted for replacement	500,000	500,000
Unrestricted	<u>1,559,210</u>	<u>2,932,827</u>
Total net assets	<u>\$ 17,171,983</u>	<u>\$ 17,878,218</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues:		
Charges for services	\$ 2,604,027	\$ 2,476,467
Miscellaneous revenue	<u>69,063</u>	<u>66,842</u>
Total operating revenues	<u>2,673,090</u>	<u>2,543,309</u>
Operating expenses:		
Cost of services:		
Wastewater treatment plant operation	1,396,609	1,346,282
Sanitary sewer expenses	184,346	132,929
Broad Street station expenses	27,574	32,245
Lift station expenses	27,905	20,519
Retention basis expenses	8,371	10,572
Administrative and overhead	626,906	600,170
Depreciation	<u>979,359</u>	<u>607,756</u>
Total operating expenses	<u>3,251,070</u>	<u>2,750,473</u>
Operating loss	<u>(577,980)</u>	<u>(207,164)</u>
Nonoperating revenues (expenses):		
Interest revenue	86,055	12,736
Interest expense	<u>(214,310)</u>	<u>(53,622)</u>
Total nonoperating revenues (expenses)	<u>(128,255)</u>	<u>(40,886)</u>
Change in net assets	(706,235)	(248,050)
Total net assets – beginning of year	<u>17,878,218</u>	<u>18,126,268</u>
Total net assets – end of year	<u>\$ 17,171,983</u>	<u>\$ 17,878,218</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2005 and 2004

INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,584,793	\$ 2,590,756
Cash paid to suppliers	(1,136,519)	(2,474,719)
Cash paid to employees	<u>(702,811)</u>	<u>(738,633)</u>
Net cash provided by (used in) operating activities	<u>745,463</u>	<u>(622,596)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(1,508,766)	(5,181,075)
Interest expense	(214,370)	(130,479)
Bond proceeds		5,609,725
Principal paid on DWRP Bonds	<u>(350,000)</u>	<u> </u>
Net cash provided by (used in) capital and related financing activities	<u>(2,073,136)</u>	<u>298,171</u>
Cash flows from investing activities:		
Interest	86,055	22,062
Investments purchased	(1,000,000)	(5,878,222)
Investment proceeds	<u>2,318,037</u>	<u>5,820,591</u>
Net cash provided by (used in) investing activities	<u>1,404,092</u>	<u>(35,569)</u>
Net increase (decrease) in cash and cash equivalents	76,419	(359,994)
Cash and cash equivalents at beginning of year	<u>414,780</u>	<u>774,774</u>
Cash and cash equivalents at end of year	<u>\$ 491,199</u>	<u>\$ 414,780</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

WASTEWATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2005 and 2004

RECONCILIATION OF OPERATING LOSS TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating loss	<u>\$ (577,980)</u>	<u>\$ (207,164)</u>
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation	979,359	607,756
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	(271,050)	21,767
(Increase) decrease in due from other funds	182,753	25,680
(Increase) decrease in prepaids	819	(1,038)
Increase (decrease) in vouchers payable	113,684	(1,028,494)
Increase (decrease) in accrued payroll	26,714	(18,110)
Increase (decrease) in accrued sick and vacation	(13,903)	(23,817)
Increase (decrease) in due to other funds	<u>305,067</u>	<u>824</u>
Total adjustments	<u>1,323,443</u>	<u>(415,432)</u>
Net cash provided by (used in) in operating activities	<u>\$ 745,463</u>	<u>\$ (622,596)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

ASSETS	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current assets:		
Cash and cash equivalents	\$ 98,982	\$ 1,035,893
Investments		134,528
Receivables:		
Accounts	375,122	434,567
Deferred assessments	22,629	22,629
Due from other funds	295,313	17,563
Inventories	120,650	115,995
Prepaid expense	<u>8,082</u>	<u>7,495</u>
	920,778	1,768,670
Restricted assets available for current liabilities:		
Customer deposits – cash	15,030	13,305
Bond interest and redemption account – investment	177,530	255,360
Bond interest and redemption account – cash	<u>81,501</u>	<u> </u>
Total current assets	<u>1,194,839</u>	<u>2,037,335</u>
Noncurrent assets:		
Restricted investments:		
Bond reserve - investment	200,000	200,000
Replacement account – investment	<u>100,000</u>	<u>100,000</u>
Total noncurrent restricted assets	<u>300,000</u>	<u>300,000</u>
Capital assets:		
Land	102,928	102,928
Water system	21,837,304	14,919,018
Less: Accumulated depreciation	(7,046,504)	(6,612,346)
Construction in progress	<u>723,910</u>	<u>6,661,664</u>
Net capital assets	<u>15,617,638</u>	<u>15,071,264</u>
Total noncurrent assets	<u>15,917,638</u>	<u>15,371,264</u>
Total assets	<u>\$ 17,112,477</u>	<u>\$ 17,408,599</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF NET ASSETS
June 30, 2005 and 2004

LIABILITIES	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Current liabilities:		
Vouchers payable	\$ 207,864	\$ 45,706
Accrued payroll	31,961	6,166
Due to other funds:		
General	37,116	36,612
Information Technology	18,199	182,753
DWRP Bonds payable - current	<u>225,000</u>	<u>220,000</u>
	520,140	491,237
Current liabilities - payable from restricted assets:		
Customer deposits payable	15,030	13,305
Accrued interest	<u>34,031</u>	<u>35,360</u>
Total current liabilities	<u>569,201</u>	<u>539,902</u>
Noncurrent liabilities:		
Accrued sick and vacation	80,837	65,673
DWRP Bonds payable	<u>5,220,000</u>	<u>5,445,000</u>
Total noncurrent liabilities	<u>5,300,837</u>	<u>5,510,673</u>
Total liabilities	<u>5,870,038</u>	<u>6,050,575</u>
NET ASSETS		
Invested in capital assets, net of related debt	10,172,638	9,406,264
Restricted for debt service	425,000	420,000
Restricted for replacement	100,000	100,000
Unrestricted	<u>544,801</u>	<u>1,431,760</u>
Total net assets	<u>\$ 11,242,439</u>	<u>\$ 11,358,024</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
FUND NET ASSETS**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating revenues:		
Charges for services	\$ 2,635,085	\$ 2,510,828
Miscellaneous revenues	<u>265,824</u>	<u>262,793</u>
Total operating revenues	<u>2,900,909</u>	<u>2,773,621</u>
Operating expenses:		
Cost of services:		
Merchandise	21,879	27,009
Taps and service	1,213	171
Purification and pumping	940,901	838,661
Transmission and distribution	575,037	401,033
Administration and overhead	924,520	826,590
Depreciation	<u>433,748</u>	<u>308,072</u>
Total operating expenses	<u>2,897,298</u>	<u>2,401,536</u>
Operating income	<u>3,611</u>	<u>372,085</u>
Nonoperating revenues (expenses):		
Interest revenue	18,257	55,203
Interest expense	(137,453)	(23,845)
Bond agent expense	<u></u>	<u>(500)</u>
Total nonoperating revenues (expenses)	<u>(119,196)</u>	<u>30,858</u>
Change in net assets	(115,585)	402,943
Total net assets – beginning of year	<u>11,358,024</u>	<u>10,955,081</u>
Total net assets – end of year	<u>\$ 11,242,439</u>	<u>\$ 11,358,024</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN
WATER SYSTEM ENTERPRISE FUND
COMPARATIVE STATEMENTS OF CASH FLOWS
For Fiscal Years Ended June 30, 2005 and 2004
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash flows from operating activities:		
Cash received from customers	\$ 2,682,604	\$ 2,868,757
Cash paid to suppliers	(1,408,052)	(1,992,236)
Cash paid to employees	<u>(1,019,538)</u>	<u>(980,171)</u>
Net cash provided by (used in) operating activities	<u>255,014</u>	<u>(103,650)</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(980,532)	(3,385,850)
Principal paid on revenue bonds		(250,000)
Interest paid and agent fees on revenue bonds		(97,162)
DWRF Bond proceeds		3,695,953
Principal paid on DWRF Bonds	(220,000)	
Interest and agent fees on DWRF Bonds	<u>(138,782)</u>	
Net cash used in capital and related financing activities	<u>(1,339,314)</u>	<u>(37,059)</u>
Cash flows from investing activities:		
Purchase of investments	(98,682)	(2,511,211)
Interest	18,257	58,562
Proceeds on investments	<u>311,040</u>	<u>2,816,373</u>
Net cash provided by investing activities	<u>230,615</u>	<u>363,724</u>
Net increase (decrease) in cash and cash equivalents	(853,685)	223,015
Cash and cash equivalents at beginning of year	<u>1,049,198</u>	<u>826,183</u>
Cash and cash equivalents at end of year	<u>\$ 195,513</u>	<u>\$ 1,049,198</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

WATER SYSTEM ENTERPRISE FUND

COMPARATIVE STATEMENTS OF CASH FLOWS

For Fiscal Years Ended June 30, 2005 and 2004

RECONCILIATION OF OPERATING INCOME TO NET CASH
PROVIDED BY (USED IN) OPERATING ACTIVITIES

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Operating income	\$ 3,611	\$ 372,085
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	433,748	308,072
Changes in Assets and Liabilities:		
(Increase) decrease in accounts receivable	59,855	93,963
(Increase) decrease in due from other funds	(277,750)	1,849
(Increase) decrease in inventories	(4,655)	(8,470)
(Increase) decrease in prepaid expense	(587)	(321)
Increase (decrease) in vouchers payable	162,158	(820,839)
Increase (decrease) in accrued payroll	25,795	(13,529)
Increase (decrease) in accrued sick and vacation	15,164	(13,065)
Increase (decrease) in due to other funds	(164,050)	(22,719)
Increase (decrease) in customer deposits	<u>1,725</u>	<u>(676)</u>
Total adjustments	<u>251,403</u>	<u>(475,735)</u>
Net cash provided by (used in) operating activities	\$ <u>255,014</u>	\$ <u>(103,650)</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

FIDUCIARY FUNDS – AGENCY FUNDS

Agency funds are used to account for assets held by the City as an agent for other entities or individuals.

PAYROLL DEDUCTION FUND: This fund handles the payment of payroll deductions to third parties.

PROPERTY TAX FUND: This fund accounts for the collection and payment of property taxes billed and collected by the City on behalf of the County, two school districts and an intermediate school district.

TRUST AND AGENCY FUND: This fund accounts for monies received from various sources and hold by the City in a custodial or agent capacity.

CITY OF ADRIAN, MICHIGAN

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
ALL AGENCY FUNDS**

For Fiscal Year Ended June 30, 2005

	<u>Balance July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2005</u>
PAYROLL DEDUCTION FUND				
<u>ASSETS</u>				
Cash	\$ <u>10.608</u>	\$ <u>667.561</u>	\$ <u>653.789</u>	\$ <u>24.380</u>
<u>LIABILITIES</u>				
Vouchers payable	\$ <u>10.608</u>	\$ <u>667.561</u>	\$ <u>653.789</u>	\$ <u>24.380</u>
PROPERTY TAX FUND				
<u>ASSETS</u>				
Cash	\$ <u>144.313</u>	\$ <u>68.492</u>	\$ <u>70.251</u>	\$ <u>142.554</u>
<u>LIABILITIES</u>				
Due to other taxing units	\$ <u>144.313</u>	\$ <u>68.492</u>	\$ <u>70.251</u>	\$ <u>142.554</u>
TRUST & AGENCY FUND				
<u>ASSETS</u>				
Cash	\$ <u>271.886</u>	\$ <u>19.538.129</u>	\$ <u>19.515.937</u>	\$ <u>294.078</u>
<u>LIABILITIES</u>				
Restricted deposits	\$ <u>271.886</u>	\$ <u>19.538.129</u>	\$ <u>19.515.937</u>	\$ <u>294.078</u>
TOTAL - ALL AGENCY FUNDS				
<u>ASSETS</u>				
Cash	\$ <u>426.807</u>	\$ <u>20.274.182</u>	\$ <u>20.239.977</u>	\$ <u>461.012</u>
<u>LIABILITIES</u>				
Vouchers payable	\$ 10,608	\$ 667,561	\$ 653,789	\$ 24,380
Due to other taxing units	144,313	68,492	70,251	142,554
Restricted deposits	<u>271.886</u>	<u>19.538.129</u>	<u>19.515.937</u>	<u>294.078</u>
Total liabilities	\$ <u>426.807</u>	\$ <u>20.274.182</u>	\$ <u>20.239.977</u>	\$ <u>461.012</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2005 and 2004

<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash and cash equivalents	\$ 724,270	\$ 570,606
Investments	13,949	83,653
Accounts receivable	<u>292</u>	<u></u>
Total assets	<u>\$ 738,511</u>	<u>\$ 654,259</u>
 <u>LIABILITIES AND FUND BALANCE</u>		
Liabilities:		
Vouchers payable	\$ 159,557	\$ 5,625
Due to primary government	11,604	816
Accrued payroll	<u>1,427</u>	<u></u>
Total liabilities	<u>172,588</u>	<u>6,441</u>
Fund balance:		
Reserved for:		
Downtown Development Projects	80,670	80,670
Encumbrances	26,789	39,192
Unreserved:		
Undesignated	<u>458,464</u>	<u>527,956</u>
Total fund balance	<u>565,923</u>	<u>647,818</u>
Total liabilities and fund balance	<u>\$ 738,511</u>	<u>\$ 654,259</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - SPECIAL REVENUE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Property taxes	\$ 351,664	\$ 317,575
Interest	4,200	4,820
Other		221
Contribution from Primary Government – Major Street	<u>15,000</u>	<u> </u>
Total revenues	<u>370,864</u>	<u>322,616</u>
Expenditures:		
Current:		
Other services	118,249	112,956
Contributions to Primary Government	<u>46,834</u>	<u> </u>
Total expenditures	<u>165,083</u>	<u>112,956</u>
Excess of revenues over expenditures	205,781	209,660
Other financing uses:		
Transfer out	<u>(132,760)</u>	<u>(130,280)</u>
Net change in fund balance	73,021	79,380
Fund balance – beginning of year	647,818	568,438
Prior year adjustment – TIF property taxes	<u>(154,916)</u>	<u> </u>
Fund balance – end of year	<u>\$ 565,923</u>	<u>\$ 647,818</u>

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

CITY OF ADRIAN, MICHIGAN
DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT

COMPARATIVE BALANCE SHEETS

June 30, 2005 and 2004

	<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash		<u>\$ 16,599</u>	<u>\$ 16,664</u>
Total assets		<u>\$ 16,599</u>	<u>\$ 16,664</u>
 <u>LIABILITIES AND FUND BALANCE</u>			
Liabilities:			
Accrued interest payable		\$ 13,255	\$ 13,255
Fund balance:			
Reserved for debt retirement		<u>3,344</u>	<u>3,409</u>
Total liabilities and fund balance		<u>\$ 16,599</u>	<u>\$ 16,664</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**DOWNTOWN DEVELOPMENT AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Interest	\$ <u>160</u>	\$ <u>342</u>
Total revenues	<u>160</u>	<u>342</u>
Expenditures:		
Debt Service:		
Principal retirement	90,000	85,000
Interest and fiscal charges	<u>42,985</u>	<u>45,680</u>
Total expenditures	<u>132,985</u>	<u>130,680</u>
Deficiency of revenues over expenditures	(132,825)	(130,338)
Other financing sources:		
Transfers from DDA - Special Revenue	<u>132,760</u>	<u>130,280</u>
Net change in fund balance	(65)	(58)
Fund balance - beginning of year	<u>3,409</u>	<u>3,467</u>
Fund balance - end of year	<u>\$ 3,344</u>	<u>\$ 3,409</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

**LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND
DISCRETELY PRESENTED COMPONENT UNIT**

COMPARATIVE BALANCE SHEETS

June 30, 2005 and 2004

	<u>ASSETS</u>	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Cash		\$ <u>47,116</u>	\$ <u>46,916</u>
Total assets		\$ <u>47,116</u>	\$ <u>49,916</u>
	<u>FUND BALANCE</u>		
Reserved for debt retirement		\$ <u>47,116</u>	\$ <u>46,916</u>
Total fund balance		\$ <u>47,116</u>	\$ <u>49,916</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

LOCAL DEVELOPMENT FINANCE AUTHORITY - DEBT SERVICE FUND

**COMPARATIVE STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE**

For Fiscal Years Ended June 30, 2005 and 2004

	<u>June 30, 2005</u>	<u>June 30, 2004</u>
Revenues:		
Property taxes	\$ 95,380	\$ 92,126
Interest	<u>200</u>	<u>228</u>
Total revenues	<u>95,580</u>	<u>92,354</u>
Expenditures:		
Debt Service:		
Principal retirement - City	<u>7,500</u>	<u>7,500</u>
Interest - City	<u>2,400</u>	<u>3,000</u>
Interest - Jacuzzi Brands	<u>85,480</u>	<u>81,626</u>
Total expenditures	<u>95,380</u>	<u>92,126</u>
Net change in fund balance	200	228
Fund balance - beginning of year	<u>46,916</u>	<u>46,688</u>
Fund balance - end of year	<u>\$ 47,116</u>	<u>\$ 46,916</u>

The notes to the financial statements are an integral part of this statement.

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Automobile Parking Bonds	09/01/89	\$ 500,000	6.90%
Storm Water Utility	01/01/97	\$ 800,000	4.60% 4.70 4.80
Parks & Recreation	08/01/00	\$ 1,000,000	5.75%
Parks & Recreation	05/23/03	\$ 1,200,000	3.64%

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>Date of Maturity</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Annual Interest Payable</u>
09/01/2004	\$ <u>50,000</u>	\$ <u>-</u>	\$ <u>1,725</u>
09/01/2004	\$ 95,000	\$	\$ 11,685
09/01/2005	100,000	100,000	7,150
09/01/2006	<u>100,000</u>	<u>100,000</u>	<u>2,400</u>
	\$ <u>295,000</u>	\$ <u>200,000</u>	\$ <u>21,235</u>
08/01/04 – 02/01/05	\$ 93,247	\$	\$ 39,635
08/01/05 – 02/01/06	98,686	98,686	34,196
08/01/06 – 02/01/07	104,442	104,442	28,440
08/01/07 – 02/01/08	110,534	110,534	22,349
08/01/08 – 02/01/09	116,981	116,981	15,902
08/01/09 – 02/01/10	123,808	123,808	9,078
08/01/10	<u>64,584</u>	<u>64,584</u>	<u>1,857</u>
	\$ <u>712,282</u>	\$ <u>619,035</u>	\$ <u>151,457</u>
11/23/04 – 05/23/05	\$ 105,201	\$	\$ 39,038
11/23/05 – 05/23/06	109,065	109,065	35,173
11/23/06 – 05/23/07	113,072	113,072	31,167
11/23/07 – 05/23/08	117,225	117,225	27,014
11/23/08 – 05/23/09	121,531	121,531	22,708
11/23/09 – 05/23/10	125,995	125,995	18,244
11/23/10 – 05/23/11	130,623	130,623	13,618
11/23/11 – 05/23/12	135,420	135,420	8,818
11/23/12 – 05/23/13	<u>140,394</u>	<u>140,394</u>	<u>3,844</u>
	\$ <u>1,098,526</u>	\$ <u>993,325</u>	\$ <u>199,624</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Wastewater System Revenue Bonds (DWRP Loan)	09/26/02	\$ 8,920,000	2.50%

See independent auditors' report.

CITY OF ADRIAN, MICHIGAN
SCHEDULE OF INDEBTEDNESS
June 30, 2005

<u>Date of Maturity</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Annual Interest Payable</u>
10/01/04 – 04/01/05	\$ 350,000	\$	\$ 214,370
10/01/05 – 04/01/06	355,000	355,000	209,812
10/01/06 – 04/01/07	365,000	365,000	200,812
10/01/07 – 04/01/08	375,000	375,000	191,562
10/01/08 – 04/01/09	385,000	385,000	182,062
10/01/09 – 04/01/10	395,000	395,000	172,312
10/01/10 – 04/01/11	405,000	405,000	162,312
10/01/11 – 04/01/12	415,000	415,000	152,063
10/01/12 – 04/01/13	425,000	425,000	141,563
10/01/13 – 04/01/14	435,000	435,000	130,813
10/01/14 – 04/01/15	445,000	445,000	119,812
10/01/15 – 04/01/16	460,000	460,000	108,500
10/01/16 – 04/01/17	470,000	470,000	96,875
10/01/17 – 04/01/18	480,000	480,000	85,000
10/01/18 – 04/01/19	495,000	495,000	72,813
10/01/19 – 04/01/20	505,000	505,000	60,313
10/01/20 – 04/01/21	520,000	520,000	47,500
10/01/21 – 04/01/22	535,000	535,000	34,313
10/01/22 – 04/01/23	545,000	545,000	20,813
10/01/2023	<u>560,000</u>	<u>560,000</u>	<u>7,000</u>
	<u>\$ 8,920,000</u>	<u>\$ 8,570,000</u>	<u>\$ 2,410,620</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>PRIMARY GOVERNMENT</u>	<u>Date Of Issue</u>	<u>Amount Of Issue</u>	<u>Interest Rate</u>
Water Supply System Revenue Bonds (DWRP Loan)	09/26/02	\$ 5,665,000	2.50%

Accumulated vacation and sick pay -
long term

TOTAL - PRIMARY GOVERNMENT

See independent auditors' report.

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>Date of Maturity</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Annual Interest Payable</u>
10/01/04 – 04/01/05	\$ 220,000	\$	\$ 138,783
10/01/05 – 04/01/06	225,000	225,000	133,312
10/01/06 – 04/01/07	235,000	235,000	127,563
10/01/07 – 04/01/08	240,000	240,000	121,625
10/01/08 – 04/01/09	245,000	245,000	115,562
10/01/09 – 04/01/10	250,000	250,000	109,375
10/01/10 – 04/01/11	255,000	255,000	103,063
10/01/11 – 04/01/12	265,000	265,000	96,562
10/01/12 – 04/01/13	270,000	270,000	89,875
10/01/13 – 04/01/14	275,000	275,000	83,063
10/01/14 – 04/01/15	285,000	285,000	76,062
10/01/15 – 04/01/16	290,000	290,000	68,875
10/01/16 – 04/01/17	300,000	300,000	61,500
10/01/17 – 04/01/18	305,000	305,000	53,938
10/01/18 – 04/01/19	315,000	315,000	46,187
10/01/19 – 04/01/20	320,000	320,000	38,250
10/01/20 – 04/01/21	330,000	330,000	30,125
10/01/21 – 04/01/22	340,000	340,000	21,750
10/01/22 – 04/01/23	345,000	345,000	13,188
10/01/2023	<u>355,000</u>	<u>355,000</u>	<u>4,437</u>
	<u>\$ 5,665,000</u>	<u>\$ 5,445,000</u>	<u>\$ 1,533,095</u>
	<u>\$ 420,134</u>	<u>\$ 375,482</u>	<u>\$ -</u>
	<u>\$ 17,160,942</u>	<u>\$ 16,202,842</u>	<u>\$ -</u>

CITY OF ADRIAN, MICHIGAN

SCHEDULE OF INDEBTEDNESS

June 30, 2005

<u>Date of Maturity</u>	<u>June 30, 2004</u>	<u>June 30, 2005</u>	<u>Annual Interest Payable</u>
03/01/2005	\$ 90,000	\$	\$ 42,560
03/01/2006	85,000	85,000	36,800
03/01/2007	85,000	85,000	31,360
03/01/2008	85,000	85,000	25,920
03/01/2009	80,000	80,000	20,480
03/01/2010	80,000	80,000	15,360
03/01/2011	80,000	80,000	10,240
03/01/2012	<u>80,000</u>	<u>80,000</u>	<u>5,120</u>
	<u>\$ 665,000</u>	<u>\$ 575,000</u>	<u>\$ 187,840</u>
	<u>\$ 764,100</u>	<u>\$ 764,100</u>	(Payments dependent on tax revenues available.)
	<u>\$ 1,429,100</u>	<u>\$ 1,339,100</u>	

EXHIBIT B-1

CITY OF ADRIAN
NET ASSETS BY COMPONENT
LAST THREE FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR		
	2002-03	2003-04	2004-05
Governmental Activities			
Invested in Capital Assets, Net of Related Debt	\$24,050,841	\$23,761,251	\$24,026,248
Restricted	4,711,401	4,747,830	3,876,032
Unrestricted	7,018,815	6,856,377	6,368,174
Total Governmental Activities Net Assets	<u>\$35,781,057</u>	<u>\$35,365,458</u>	<u>\$34,270,454</u>
Business-type Activities			
Invested in Capital Assets, Net of Related Debt	\$27,647,272	\$26,559,550	\$28,022,181
Restricted	1,295,005	1,505,243	1,380,000
Unrestricted	3,732,120	4,894,449	2,796,672
Total Business-type Activities Net Assets	<u>\$32,674,397</u>	<u>\$32,959,242</u>	<u>\$32,198,853</u>
Primary Government			
Invested in Capital Assets, Net of Related Debt	\$51,698,113	\$50,320,801	\$52,048,429
Restricted	6,006,406	6,253,073	5,256,032
Unrestricted	10,750,935	11,750,826	9,164,846
Total Primary Government Net Assets	<u>\$68,455,454</u>	<u>\$68,324,700</u>	<u>\$66,469,307</u>

CITY OF ADRIAN
EXHIBIT B-2
CHANGES IN NET ASSETS
LAST THREE FISCAL YEARS
(accrual basis of accounting)

	FISCAL YEAR		
	2002-03	2003-04	2004-05
EXPENSES			
Governmental Activities:			
General Government			
Public Safety	\$1,807,739	\$1,684,439	\$2,655,280
Public Works	4,397,169	4,601,589	4,693,255
Culture and Recreation	920,125	1,076,086	784,985
Other Services	2,085,016	1,915,082	2,188,354
Community & Economic Development	1,300,251	1,985,445	1,631,127
Highways, Streets and Bridges	1,143,654	619,075	278,898
Interest on Long-Term Debt	2,118,957	2,212,509	2,513,058
Total Governmental Activities Expenses	87,538	78,673	69,369
	<u>\$13,860,449</u>	<u>\$14,172,898</u>	<u>\$14,814,326</u>
Business-type Activities:			
Wastewater System			
Water System	\$2,604,671	\$2,804,095	\$3,465,380
Dial-A-Ride System	2,697,494	2,425,881	3,034,751
Automobile Parking System	413,435	440,192	490,660
Storm Water Utility	103,545	112,969	152,681
Total Business-type Activities Expenses	165,359	207,851	344,579
Total Primary Government Expenses	<u>\$5,984,504</u>	<u>\$5,990,988</u>	<u>\$7,488,051</u>
	<u>\$19,844,953</u>	<u>\$20,163,886</u>	<u>\$22,302,377</u>
PROGRAM REVENUES (Incl. Grants & Contributions)			
Governmental Activities:			
General Government			
Public Safety	\$177,973	\$395,718	\$1,113,947
Public Works	633,870	352,914	449,253
Culture and Recreation	1,786	1,877	991
Other Services	849,317	1,154,198	1,297,964
Community & Economic Development	907,323	893,914	273,882
Highways, Streets and Bridges	1,252,159	592,145	145,189
Total Governmental Activities Program Revenues	513,438	411,574	152,322
	<u>\$4,335,866</u>	<u>\$3,802,340</u>	<u>\$3,433,548</u>

EXHIBIT B-2

**CITY OF ADRIAN
CHANGES IN NET ASSETS
LAST THREE FISCAL YEARS
(accrual basis of accounting)**

	FISCAL YEAR		
	2002-03	2003-04	2004-05
EXPENSES			
Business-type Activities:			
Wastewater System	\$2,275,150	\$2,543,309	\$2,673,090
Water System	2,888,132	2,773,621	2,900,909
Dial-A-Ride System	366,570	318,273	299,965
Automobile Parking System	100,554	111,815	80,239
Storm Water Utility	252,937	263,965	363,813
Total Business-type Activities Program Revenues	<u>\$5,883,343</u>	<u>\$6,010,983</u>	<u>\$6,318,016</u>
Total Primary Government Program Revenues	<u>\$10,219,209</u>	<u>\$9,813,323</u>	<u>\$9,751,564</u>
NET (EXPENSES)/REVENUE			
Governmental Activities	(\$9,524,583)	(\$10,370,558)	(\$11,380,778)
Business-type Activities	<u>(101,161)</u>	<u>19,995</u>	<u>(1,170,035)</u>
Total Primary Government Net Expense	<u>(\$9,625,744)</u>	<u>(\$10,350,563)</u>	<u>(\$12,550,813)</u>
GENERAL REVENUES AND OTHER CHANGES IN NET ASSETS			
Governmental Activities:			
Property Taxes	\$5,914,288	\$6,041,046	\$6,528,844
Sales Tax	2,621,990	2,551,255	2,435,992
Motor Vehicle Fuel Tax	1,227,987	1,337,898	1,347,902
Grants and Contributions (not restricted to specific programs)	660,115	11,008	12,346
Unrestricted Investment Earnings	248,534	170,879	236,936
Transfers	<u>(100,433)</u>	<u>(157,127)</u>	<u>(276,246)</u>
Total Governmental Activities	<u>\$10,572,481</u>	<u>\$9,954,959</u>	<u>\$10,285,774</u>
Business-type Activities:			
Unrestricted Investment Earnings	\$118,529	\$95,723	\$133,400
Transfers	100,433	169,127	276,246
Total Business-type Activities	<u>\$218,962</u>	<u>\$264,850</u>	<u>\$409,646</u>
Total Primary Government	<u>\$10,791,443</u>	<u>\$10,219,809</u>	<u>\$10,695,420</u>
CHANGE IN NET ASSETS			
Governmental Activities	\$1,047,898	(\$415,599)	(\$1,095,004)
Business-type Activities	<u>117,801</u>	<u>284,845</u>	<u>(760,389)</u>
Total Primary Government	<u>\$1,165,699</u>	<u>(\$130,754)</u>	<u>(\$1,855,393)</u>

CITY OF ADRIAN
FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05
General Fund										
Reserved	\$155,555	\$143,993	\$133,104	\$107,722	\$146,824	\$150,254	\$151,423	\$1,880,375	\$927,493	\$804,255
Unreserved	3,231,874	3,614,763	4,450,879	5,273,590	5,746,147	6,647,473	7,051,521	5,588,179	6,309,600	5,758,113
Total General Fund	\$3,387,429	\$3,758,756	\$4,583,983	\$5,381,312	\$5,892,971	\$6,797,727	\$7,202,944	\$7,468,554	\$7,237,093	\$6,562,368
All Other Governmental Funds										
Reserved	\$675,284	\$640,963	\$553,323	\$465,722	\$410,381	\$438,442	\$434,369	\$1,856,968	\$2,008,395	\$1,319,835
Unreserved, Reported in:										
Special Revenue Funds	\$1,764,238	\$2,046,427	\$2,182,189	\$2,574,813	\$2,815,685	\$2,293,233	\$2,430,783	\$2,854,433	\$2,739,435	\$2,556,197
Capital Projects Funds	0	0	0	0	0	0	0	0	0	0
Debt Service Funds	0	0	0	0	0	0	0	0	0	0
Total All Other Governmental Funds	\$2,439,522	\$2,687,390	\$2,735,512	\$3,040,535	\$3,226,066	\$2,731,675	\$2,865,152	\$4,711,401	\$4,747,830	\$3,876,032
Total Governmental Funds	\$5,826,951	\$6,446,146	\$7,319,495	\$8,421,847	\$9,119,037	\$9,529,402	\$10,068,096	\$12,179,955	\$11,984,923	\$10,438,400

CITY OF ADRIAN
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

	FISCAL YEAR									
	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05
REVENUES:										
Taxes	\$4,140,528	\$4,708,107	\$5,097,850	\$5,335,941	\$5,432,018	\$5,549,836	\$5,666,051	\$5,843,118	\$5,964,834	\$6,433,580
Other Tax Related Revenue	76,414	56,763	87,496	67,808	103,369	63,917	57,364	70,670	74,212	87,764
Licenses & Permits	231,076	169,659	262,312	152,262	155,934	173,988	178,051	280,389	184,207	262,278
Intergovernmental - Federal	1,175,411	62,222	58,074	138,077	230,836	731,182	519,158	800,346	89,145	13,141
Intergovernmental - State	3,398,963	3,386,075	3,770,900	3,932,824	4,094,996	4,316,144	4,213,929	4,160,844	3,988,935	3,958,348
Charges for Services	68,801	64,465	58,763	71,887	62,870	67,454	64,858	66,458	65,345	63,631
Use and Admission Charges	282,608	292,384	326,043	300,442	307,619	295,690	321,521	301,299	314,117	336,219
Fines and Fees	264,007	245,704	262,887	266,368	287,544	304,369	291,757	275,172	326,021	324,033
Investment Earnings	332,202	345,717	403,636	439,577	490,747	613,782	416,449	286,010	170,879	236,936
Fee Trust - for beautification purposes	286,673	465,857	1,169,173	638,527	377,319	884,164	642,379	1,415,214	1,282,212	763,001
Other	770,188	754,117	1,324,225	694,931	798,058	607,408	1,196,707	1,262,351	1,322,348	806,513
Special Assessments	0	0	0	0	0	0	207,843	246,409	130,170	24,944
Contribution from DDA	0	0	0	0	0	0	0	0	0	46,834
Total Revenues	\$11,026,871	\$10,551,070	\$12,821,359	\$12,038,644	\$12,341,310	\$13,607,934	\$13,776,067	\$15,008,280	\$13,912,425	\$13,357,222
EXPENDITURES:										
General Government	\$1,223,203	\$1,361,604	\$1,350,878	\$1,455,220	\$1,353,112	\$1,437,634	\$1,505,288	\$1,822,635	\$1,772,172	\$2,189,291
Public Safety	3,426,060	3,371,089	3,482,670	3,947,172	4,333,602	4,026,042	4,253,144	4,533,808	4,544,000	4,818,431
Public Works	941,376	921,521	1,049,060	888,753	880,541	899,738	1,110,080	904,533	912,372	1,098,841
Culture & Recreation	1,490,389	1,772,708	1,756,115	1,888,061	1,794,139	1,978,850	2,114,545	2,232,404	2,272,317	2,260,361
Other Services	1,923,722	1,019,940	1,797,897	1,220,051	1,256,400	2,714,927	2,066,253	2,782,935	1,412,504	1,062,495
Community & Economic Development	0	0	0	0	0	0	0	1,424,600	615,400	276,273
Highways, Streets and Bridges	1,182,984	1,319,745	1,772,451	1,506,421	1,817,510	1,831,498	1,992,544	1,226,250	2,144,444	2,644,686
Debt Service	100,000	100,000	150,000	184,423	150,000	187,691	78,665	83,253	189,583	198,448
Principal Retirement	56,500	49,375	40,200	29,602	17,700	66,389	54,217	49,629	87,538	78,673
Interest and Fiscal Charges										
Total Expenditures	\$10,344,234	\$9,915,982	\$11,379,271	\$10,919,703	\$11,603,004	\$13,143,769	\$13,174,736	\$15,060,047	\$13,950,330	\$14,627,499
Excess of Revenues over/(under) Expenditures	\$682,637	\$635,088	\$1,442,088	\$1,118,941	\$738,306	\$464,165	\$601,331	(\$51,767)	(\$37,905)	(\$1,270,277)
Other Financing Sources (Uses):										
Transfers In	\$441,227	\$740,457	\$1,486,734	\$1,055,232	\$755,861	\$1,371,955	\$1,163,016	\$1,888,272	\$2,364,135	\$1,385,504
Transfers Out	(448,668)	(745,267)	(1,499,863)	(1,074,956)	(793,557)	(1,422,200)	(1,222,745)	(1,988,705)	(2,521,262)	(1,661,750)
Loan Proceeds	1,200,000	0	0	0	0	0	0	1,200,000	0	0
Total Other Financing Sources (Uses)	\$1,192,559	(\$4,810)	(\$13,129)	(\$19,724)	(\$37,696)	(\$50,245)	(\$59,729)	\$1,099,567	(\$157,127)	(\$276,246)
NET CHANGES IN FUND BALANCES	\$1,875,196	\$630,278	\$1,428,959	\$1,099,217	\$700,610	\$413,920	\$541,602	\$1,047,800	(\$195,032)	(\$1,546,523)
Debt Service as a Percentage of Non-Capital Expenditures	1.7%	1.7%	1.7%	2.0%	2.3%	1.7%	2.2%	1.2%	1.0%	2.3%

EXHIBIT B-5

CITY OF ADRIAN
PROGRAM REVENUES BY FUNCTION/PROGRAM
LAST THREE FISCAL YEARS
(accrual basis of accounting)

Function/Program	FISCAL YEAR	
	2002-03	2003-04
Governmental Activities:		
General Government		
Public Safety	\$177,973	\$395,718
Public Works	633,870	352,914
Culture and Recreation	1,786	1,877
Other Services	849,317	1,154,198
Community & Economic Development	907,323	893,914
Highways, Streets and Bridges	1,252,159	592,145
Total Governmental Activities	513,438	411,574
	<u>\$4,335,866</u>	<u>\$3,802,340</u>
Business-type Activities:		
Wastewater System	\$2,275,150	\$2,543,309
Water System	2,888,132	2,773,621
Dial-A-Ride System	366,570	318,273
Automobile Parking System	100,554	111,815
Storm Water Utility	252,937	263,965
Total Business-type Activities	<u>\$5,883,343</u>	<u>\$6,010,983</u>
Total Primary Government	<u>\$10,219,209</u>	<u>\$9,813,323</u>
		<u>\$9,751,564</u>

EXHIBIT B-6

CITY OF ADRIAN
TAX REVENUES BY SOURCE - GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS
(modified accrual basis of accounting)

FISCAL YEAR	PROPERTY TAXES	SALES TAX	MOTOR VEH. FUEL TAX	OTHER	TOTAL
1995-96	4,140,528	2,304,868	1,094,095	76,414	\$7,615,905
1996-97	4,708,107	2,401,859	984,216	56,763	\$8,150,945
1997-98	5,097,850	2,573,956	1,196,944	87,496	\$8,956,246
1998-99	5,335,941	2,697,145	1,235,679	67,808	\$9,336,573
1999-00	5,432,018	2,827,815	1,267,181	103,369	\$9,630,383
2000-01	5,549,836	3,010,144	1,306,000	63,917	\$9,929,897
2001-02	5,666,051	2,944,150	1,269,779	57,364	\$9,937,344
2002-03	5,843,118	2,621,990	1,227,987	70,670	\$9,763,765
2003-04	5,964,834	2,551,255	1,337,898	74,212	\$9,928,199
2004-05	6,433,580	2,435,992	1,341,767	87,764	\$10,299,103
Change 2004-05 over/(under) 1995-96					
Amount	\$2,293,052	\$131,124	\$247,672	\$11,350	\$2,683,198
Percent	55.4%	5.7%	22.6%	14.9%	35.2%
Change 2004-05 over/(under) 2003-04					
Amount	\$468,746	(\$115,263)	\$3,869	\$13,552	\$370,904
Percent	7.9%	-4.5%	0.3%	18.3%	3.7%

EXHIBIT C-1

CITY OF ADRIAN
 ASSESSED VALUE AND TAXABLE VALUE OF REAL AND PERSONAL PROPERTY
 LAST TEN FISCAL YEARS

FISCAL YEAR	RESIDENTIAL PROPERTY	COMMERCIAL PROPERTY	INDUSTRIAL PROPERTY	PERSONAL PROPERTY	TOTAL ASSESSED VALUE	LESS: TAX-EXEMPT PROPERTY	TOTAL TAXABLE VALUE	TOTAL DIRECT TAX RATE
1995-96	152,441,500	67,790,500	12,590,800	46,092,600	278,915,400	10,535,202	268,380,198	15.7024
1996-97	173,909,400	77,337,200	14,364,000	52,583,700	318,194,300	21,070,403	297,123,897	16.5264
1997-98	186,381,200	82,940,200	15,173,100	55,128,500	339,623,000	27,099,237	312,523,763	16.1124
1998-99	197,750,500	85,697,900	15,657,000	58,388,600	357,494,000	31,430,274	326,063,726	16.0524
1999-00	207,205,000	91,202,200	16,182,900	63,786,600	378,376,700	37,218,512	341,158,188	15.7750
2000-01	219,406,000	96,347,600	16,846,400	68,333,300	400,933,300	42,946,813	357,986,487	15.5828
2001-02	232,638,900	101,140,300	18,552,100	66,895,200	419,226,500	48,679,000	370,547,500	15.2443
2002-03	245,113,050	107,306,900	17,777,500	66,333,700	436,531,150	52,971,038	383,560,112	15.2426
2003-04	259,696,900	112,120,800	16,988,700	65,246,100	454,052,500	56,828,160	397,224,340	15.7340
2004-05	276,738,900	117,518,100	16,967,300	62,610,900	473,835,200	63,540,690	410,294,510	15.7340

Source: Lenawee County Equalization Report

EXHIBIT C-2

CITY OF ADRIAN
DIRECT AND OVERLAPPING PROPERTY TAX RATES
LAST TEN FISCAL YEARS

FISCAL YEAR	CITY DIRECT RATES				OVERLAPPING HOMESTEAD TAX RATES		
	BASIC RATE	GENERAL OBLIGATION DEBT SERVICE	SOLID WASTE COLLECTION	LOCAL STREET IMPROVEMENTS	TOTAL DIRECT TAX RATE	INTERMEDIATE SCHOOL DISTRICT*	ADRIAN MADISON SCHOOL DISTRICT
1995-96	14.1024	0.6000	1.0000	0.0000	15.7024	6.6949	7.7000 6.0000
1996-97	14.0124	0.5140	1.0000	1.0000	16.5264	6.6949	7.4000 6.0000
1997-98	14.0124	0.6000	0.5000	1.0000	16.1124	6.6949	7.2000 6.0000
1998-99	14.0124	0.5400	0.5000	1.0000	16.0524	6.6849	7.2000 7.5500
1999-00	13.9282	0.5250	0.3254	0.9964	15.7750	6.6073	7.0000 7.7000
2000-01	13.8655	0.4000	0.3258	0.9915	15.5828	7.7073	7.0000 7.8000
2001-02	13.8544	0.0000	0.3992	0.9907	15.2443	7.6446	6.9500 7.8000
2002-03	13.8198	0.0000	0.4338	0.9890	15.2426	7.5465	6.0000 7.7500
2003-04	13.7507	0.0000	1.0000	0.9833	15.7340	7.4867	6.0000 7.8000
2004-05	13.7507	0.0000	1.0000	0.9833	15.7340	7.4102	6.0000 6.9300

Source: Lenawee County Apportionment Report
* Includes Special Education and Vocational Education

EXHIBIT C-3

CITY OF ADRIAN
PRINCIPAL PROPERTY TAX PAYERS
CURRENT YEAR AND NINE YEARS AGO

		FY2004-05		FY1995-96			
TAXPAYER	TYPE OF BUSINESS	TAXABLE VALUE	RANK	PERCENT OF TOTAL TAXABLE VALUE	TAXABLE VALUE	RANK	PERCENT OF TOTAL TAXABLE VALUE
ANDERSON DEVELOPMENT	MANUFACTURING	\$15,926,800	1	3.88%	\$5,345,706	3	1.99%
DELPHI AUTOMOTIVE	MANUFACTURING	14,230,000	2	3.47%	23,865,047	1	8.89%
SOLVAY AUTOMOTIVE	MANUFACTURING	13,686,400	3	3.34%	15,131,200	2	
WYATT REAL ESTATE (VENCHURS)	MANUFACTURING	5,726,010	4	1.40%			
EQUITY ASSETS MANAGEMENT	RETAIL-MALL	5,669,390	5	1.38%	5,644,600	4	2.10%
CONSUMERS ENERGY	UTILITY	4,673,850	6	1.14%	3,032,925	8	1.13%
ADRIAN STEEL	MANUFACTURING	4,657,090	7	1.14%	2,858,262	9	1.07%
MEIJER'S	RETAIL	4,614,060	8	1.12%	4,343,700	5	1.62%
CITIZENS GAS & FUEL COMPANY	UTILITY	4,409,830	9	1.07%	3,258,989	6	1.21%
BIOLAB, INC.	MANUFACTURING	4,052,030	10	0.99%			
ADRIAN FABRICATORS	MANUFACTURING	2,829,770	11	0.69%			
IXTLAN PLASTICS TECHNOLOGY	MANUFACTURING	2,756,300	12	0.67%			
PEDCOR INVESTMENTS	HOUSING	2,577,960	13	0.63%			
FISCHER FAMILY TRUST	HOUSING	2,457,270	14	0.60%			
CHARLES A GEENAN TRUST	RETAIL	2,202,870	15	0.54%			
DURA, CORP.	MANUFACTURING	2,073,070	16	0.51%	1,466,289	13	0.55%
GREAT LAKES CHEMICAL	MANUFACTURING				3,087,098	7	1.15%
UARCO, INC.	MANUFACTURING				2,407,619	10	0.90%
GARDEN STATE TANNING	MANUFACTURING				2,341,111	11	0.87%
CARLTON LODGE	MOTEL				1,657,049	12	0.62%
MAPLE VILLAGE APARTMENTS	HOUSING				1,434,784	14	0.53%
FRIENDLY VILLAGE	HOUSING				1,276,194	15	0.48%
NOB HILL APARTMENTS	HOUSING				1,263,062	16	0.47%
TOTAL		\$92,542,700		22.56%	\$78,413,635		29.22%
	TAXABLE VALUE	\$410,294,510			\$268,380,198		

SOURCE: City of Adrian Assessing Office

**CITY OF ADRIAN
PROPERTY TAX LEVIES AND COLLECTIONS
LAST TEN YEARS**

EXHIBIT C-4

FISCAL YEAR	TAXES LEVIED FOR THE FISCAL YEAR	COLLECTED WITHIN THE FISCAL YEAR OF THE LEVY		COLLECTIONS IN SUBSEQUENT YEARS	TOTAL COLLECTIONS TO DATE	
		AMOUNT	PERCENT OF LEVY		AMOUNT	PERCENT OF LEVY
1995-96	4,154,556	3,913,212	94.19%	19,389	3,932,601	94.66%
1996-97	4,330,579	4,201,435	97.02%	1,782	4,203,217	97.06%
1997-98	4,787,379	4,505,009	94.10%	20,780	4,525,789	94.54%
1998-99	5,016,756	4,738,367	94.45%	4,893	4,743,260	94.55%
1999-00	4,962,176	4,822,163	97.18%	19,279	4,841,442	97.57%
2000-01	5,094,237	5,001,594	98.18%	599	5,002,193	98.19%
2001-02	5,210,649	5,129,617	98.44%	5,835	5,135,452	98.56%
2002-03	5,278,776	5,196,857	98.45%	4,113	5,200,970	98.53%
2003-04	6,078,050	5,948,936	97.88%	15,898	5,964,834	98.14%
2004-05	6,260,655	6,028,639	96.29%	42,487	6,071,126	96.97%

Source: City of Adrian Department of Treasury

EXHIBIT D-1

CITY OF ADRIAN
RATIOS OF OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS

FISCAL YEAR	LAST TEN FISCAL YEARS										PERCENT OF PERSONAL INCOME		PER CAPITA	
	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	PARKS & RECREATION INSTALLMENT PURCHASE AGREEMENT	TOTAL GENERAL OBLIGATION BONDS	PARKS & RECREATION LAND CONTRACT	WATER SYSTEM REVENUE BONDS #1	WATER SYSTEM REVENUE BONDS #2	SEWER SYSTEM REVENUE BONDS	SEWER REVOLVING FUND LOAN	DRINKING WATER REVOLVING FUND LOAN	TOTAL PRIMARY GOV'T.		
1995-96	360,000	700,000	0	0	1,080,000	0	825,000	850,000	425,000	0	0	3,160,000	0.8%	143
1996-97	330,000	600,000	800,000	0	1,730,000	0	675,000	825,000	400,000	0	0	3,630,000	0.9%	164
1997-98	300,000	450,000	760,000	0	1,510,000	102,774	525,000	800,000	200,000	0	0	3,137,774	0.7%	142
1998-99	285,000	300,000	695,000	0	1,280,000	68,351	350,000	775,000	0	0	0	2,453,351	0.5%	111
1999-00	230,000	150,000	625,000	0	1,005,000	1,035,604	175,000	750,000	0	0	0	2,965,604	0.6%	134
2000-01	190,000	0	550,000	962,309	1,702,309	0	0	700,000	0	0	0	2,402,309	0.5%	109
2001-02	150,000	0	470,000	883,644	1,503,644	0	0	475,000	0	0	0	1,978,644	0.4%	89
2002-03	100,000	0	385,000	2,000,391	2,485,391	0	0	250,000	0	2,946,566	4,850,991	10,532,948	2.2%	474
2003-04	50,000	0	295,000	1,810,808	2,155,808	0	0	0	0	8,920,000	5,665,000	16,740,808	3.5%	754
2004-05	0	0	200,000	1,612,360	1,812,360	0	0	0	0	8,570,000	5,445,000	15,827,360	3.3%	712

CITY OF ADRIAN
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
LAST TEN FISCAL YEARS

FISCAL YEAR	AUTO PARKING BONDS	FIRE STATION BONDS	STORM WATER UTILITY BONDS	PARKS & RECREATION		TOTAL GENERAL OBLIGATION BONDS	PERCENT OF TAXABLE VALUE OF PROPERTY*	PER CAPITA**
				INSTALLMENT PURCHASE	AGREEMENT			
1995-96	360,000	700,000	0	0	0	1,060,000	0.39%	\$47.97
1996-97	330,000	600,000	800,000	0	0	1,730,000	0.58%	\$78.29
1997-98	300,000	450,000	760,000	0	0	1,510,000	0.48%	\$68.34
1998-99	265,000	300,000	695,000	0	0	1,260,000	0.39%	\$57.02
1999-00	230,000	150,000	625,000	0	0	1,005,000	0.29%	\$45.48
2000-01	190,000	0	550,000	962,309	0	1,702,309	0.48%	\$77.04
2001-02	150,000	0	470,000	883,644	0	1,503,644	0.41%	\$67.69
2002-03	100,000	0	385,000	2,000,391	0	2,485,391	0.65%	\$111.88
2003-04	50,000	0	295,000	1,810,808	0	2,155,808	0.54%	\$97.04
2004-05	0	0	200,000	1,612,360	0	1,812,360	0.44%	\$81.58

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

* See Exhibit C-1 for property value data.

** Population data can be found in Exhibit E-1.

CITY OF ADRIAN
DIRECT AND OVERLAPPING GOVERNMENTAL ACTIVITIES DEBT
AS OF JUNE 30, 2005

EXHIBIT D-3

<u>Governmental Unit</u>	<u>DEBT OUTSTANDING</u>	<u>ESTIMATED PERCENTAGE APPLICABLE*</u>	<u>ESTIMATED SHARE OF OVERLAPPING DEBT</u>
Debt Repaid with Property Taxes			
DIRECT DEBT:			
Installment Loan Purchase	\$1,612,360	100.00%	\$1,612,360
Storm Water Utility Bonds	200,000	100.00%	200,000
Net Direct Debt	<u>1,812,360</u>		<u>\$1,812,360</u>
OVERLAPPING DEBT:			
Adrian Public Schools	\$1,200,169	86.70%	\$1,040,547
Madison School District	96,844	13.30%	12,880
Lenawee County	0	14.00%	0
Net Overlapping Debt	<u>\$1,297,013</u>		<u>\$1,053,427</u>
Total Direct and Overlapping Debt	<u><u>\$3,109,373</u></u>		<u><u>\$2,865,787</u></u>

Sources: Taxable Value data used to estimate applicable percentages provided by the Lenawee County Equalization Department.
Debt outstanding provided by each governmental unit.

Note: Overlapping governments are those that coincide, at least in part, with the geographical boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of Adrian. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account. However, this does not imply that every taxpayer is a resident and, therefore, responsible for repaying the debt of each overlapping government.

* For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable value that is within the City's boundaries and dividing it by each unit's total taxable value.

**CITY OF ADRIAN
LEGAL DEBT MARGIN INFORMATION
LAST TEN FISCAL YEARS**

Legal Debt Margin Calculation for Fiscal Year FY2004-05

Taxable Value	\$410,294,510
Debt Limit (10% of Taxable Value)	41,029,451
Debt Applicable to Limit:	
Installment Purchase Agreement	1,612,360
Storm Water Utility Bonds	<u>200,000</u>
Total Debt Applicable to Limit	1,812,360
Legal Debt Margin	<u><u>39,217,091</u></u>

	Fiscal Year									
	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-00</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>
Debt Limit	\$26,179,600	\$26,838,020	\$29,712,390	\$31,252,376	\$32,606,373	\$34,115,819	\$35,798,649	\$37,054,750	\$38,356,011	\$41,029,451
Total Debt Applicable to Limit	1,060,000	1,730,000	1,510,000	1,260,000	1,005,000	1,702,309	1,503,644	2,485,391	2,155,808	1,812,360
Legal Debt Margin	<u>\$25,119,600</u>	<u>\$25,108,020</u>	<u>\$28,202,390</u>	<u>\$29,992,376</u>	<u>\$31,601,373</u>	<u>\$32,413,510</u>	<u>\$34,295,005</u>	<u>\$34,569,359</u>	<u>\$36,200,203</u>	<u>\$39,217,091</u>
Total Debt Applicable to Limit as a Percentage of Debt Limit	4.05%	6.45%	5.08%	4.03%	3.08%	4.99%	4.20%	6.71%	5.62%	4.42%

Note: The statutory debt limit of net bonded indebtedness incurred for all public purposes shall not, at any one time, exceed 10% of the State Equalized Valuation of taxable property in the City, except that this limit may be exceeded by 3/8th of one (1%) percent in the case of fire, flood, or other calamity. By law, the general obligation debt subject to the limitation may be offset by amounts set aside for repaying general obligation bonds. This limitation does not include bonds issued in anticipation of the payment of special assessments, nor bonds issued pursuant to court order for sewage or garbage disposal system.

The Michigan State Bond Act provides that the total debt in special assessment bonds for which the credit of the City is pledged shall not exceed 12% of the assessed valuation of taxable property of the City, nor shall such bonds be issued in any calendar year in excess of 3% of the assessed valuation of taxable property of the City unless voted.

Source: City Records

CITY OF ADRIAN
PLEGDED REVENUE COVERAGE
LAST TEN FISCAL YEARS

EXHIBIT D-5

FISCAL YEAR	WATER SYSTEM REVENUE BONDS					SEWER SYSTEM REVENUE BONDS				
	LESS:					LESS:				
	UTILITY SERVICE CHARGES	OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE PRINCIPAL	INTEREST	UTILITY SERVICE CHARGES	OPERATING EXPENSES	AVAILABLE REVENUE	DEBT SERVICE PRINCIPAL	INTEREST
1995-96	2,278,874	1,683,040	\$595,834	175,000	88,181	2,157,261	1,822,003	\$335,258	25,000	21,862
1996-97	2,324,212	1,637,173	\$687,039	175,000	78,412	2,519,276	1,471,855	\$1,047,421	200,000	20,500
1997-98	2,441,216	1,715,810	\$725,406	200,000	67,818	2,487,902	1,522,438	\$965,464	200,000	10,000
1998-99	2,432,835	1,470,451	\$962,384	200,000	56,437	2,493,407	1,519,952	\$973,455	0	0
1999-00	2,475,380	1,659,934	\$815,446	225,000	45,788	2,599,332	1,721,121	\$878,211	0	0
2000-01	2,410,259	1,648,469	\$761,790	962,309	34,200	2,627,112	1,976,128	\$650,984	0	0
2001-02	2,579,797	1,784,152	\$795,645	225,000	20,812	2,473,320	1,800,137	\$673,183	0	0
2002-03	2,737,791	2,363,646	\$374,145	250,000	7,031	2,275,150	2,011,722	\$263,428	0	0
2003-04	2,773,621	2,083,484	\$680,137	0	0	2,543,309	2,142,717	\$400,592	0	0
2004-05	2,900,909	2,463,550	\$437,359	220,000	137,453	2,673,090	2,271,711	\$401,379	350,000	214,310
										0.71

Note: Details regarding the City's outstanding debt can be found in the notes to the financial statements.
Operating expenses do not include interest, depreciation, or amortization expenses.

EXHIBIT E-1

CITY OF ADRIAN
DEMOGRAPHIC AND ECONOMIC STATISTICS
LAST TEN FISCAL YEARS

FISCAL YEAR	PERSONAL POPULATION	PERSONAL INCOME	PER CAPITA PERSONAL INCOME	MEDIAN AGE	SCHOOL ENROLLMENT	UNEMPLOYMENT RATES
1995-96	22,097	\$409,457,410	\$18,530	32.6	4,719	3.9%
1996-97	22,097	\$409,457,410	\$18,530	32.6	4,572	3.7%
1997-98	22,097	\$473,649,195	\$21,435	32.6	4,375	2.0%
1998-99	22,097	\$473,649,195	\$21,435	32.6	4,279	2.5%
1999-00	22,097	\$473,649,195	\$21,435	32.6	4,291	2.6%
2000-01	22,097	\$473,649,195	\$21,435	31.6	4,075	7.8%
2001-02	22,215	\$479,577,420	\$21,588	31.6	3,980	6.7%
2002-03	22,215	\$515,388,000	\$23,200	31.6	3,972	8.4%
2003-04	22,215	\$550,932,000	\$24,800	31.6	3,820	7.8%
2004-05	22,215	\$550,665,420	\$24,788	31.6	3,786	6.4%

Sources: Population, Personal Income and Median Age from U.S. Census Bureau; School Enrollments from Adrian Board of Education; Unemployment Rates from Michigan Employment Security Commission.

**CITY OF ADRIAN
PRINCIPAL EMPLOYERS
CURRENT YEAR AND NINE YEARS AGO**

EXHIBIT E-2

	FY 2004-05		FY1995-96*	
	<u>EMPLOYEES</u>	<u>RANK</u>	<u>EMPLOYEES</u>	<u>RANK</u>
<u>EMPLOYER</u>				
				<u>PERCENTAGE OF TOTAL CITY EMPLOYMENT</u>
Adrian Public Schools	730	1		2.1%
Lenawee Health Alliance	710	2		2.0%
Adrian College	688	3		2.0%
Merillat Industries	670	4		1.9%
Lenawee County	575	5		1.6%
Michigan Dept. of Corrections	500	6		1.4%
Delphi	460	7		1.3%
Wacker Chemical Corp.	453	8		1.3%
Lenawee Intermediate School District	371	9		1.1%
Wal-Mart	360	10		1.0%
Madison School District	329	11		0.9%
Meijer, Inc.	300	12		0.9%
Lowe's of Adrian	300	13		0.9%
Siena Heights University	280	14		0.8%
Inergy Automotive	239	15		0.7%
Lenawee Medical Care Facility	200	16		0.6%
Hydro Aluminum	175	17		0.5%
City of Adrian	169	18		0.5%
Cargotainer/Adrian Fabricators	163	19		0.5%
Brazeway, Inc.	64	20		0.2%
	<u>7,736</u>			<u>22.1%</u>
Total City Employment	35,000			100.0%

Source: Lenawee County Chamber of Commerce
*Note: 1995-96 data not available; history will be built.

EXHIBIT F-1

CITY OF ADRIAN
FULL-TIME CITY GOVERNMENT EMPLOYEES BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

<u>FUNCTION/PROGRAM</u>	<u>FY1995-96</u>	<u>FY1996-97</u>	<u>FY1997-98</u>	<u>FY1998-99</u>	<u>FY1999-2000</u>	<u>FY2000-01</u>	<u>FY2001-02</u>	<u>FY2002-03</u>	<u>FY2003-04</u>	<u>FY2004-05</u>
City Administrator	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Finance Department	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.0
City Assessor	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.5	2.0
City Clerk	2.0	2.0	2.0	2.0	2.0	2.0	2.0	1.5	1.5	1.5
City Attorney	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Human Resources	0.7	0.7	0.7	0.7	0.7	0.7	1.2	1.2	1.2	1.2
Cemetery	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Community Development	5.0	3.0	3.0	3.0	4.0	5.0	4.5	10.0	10.0	10.0
Public Works	9.5	15.5	15.5	15.5	15.5	14.5	14.5	10.5	10.5	10.5
Parks and Recreation	8.0	7.5	7.5	7.5	8.0	8.0	8.0	8.0	8.0	9.0
Parks and Forestry	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	11.0
Public Library	9.0	9.0	9.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0
Police Department	38.5	35.5	34.5	37.5	40.0	37.0	37.0	37.0	37.0	37.0
Fire Department	22.0	20.0	20.0	20.0	20.0	19.0	19.0	20.0	20.0	21.0
Utilities Department	39.0	39.0	38.0	37.0	38.0	40.0	41.0	40.0	42.0	42.0
Total	160.0	158.5	156.5	157.5	162.5	160.5	161.5	162.5	164.5	165.5

Source: City Finance Department

EXHIBIT F-2

CITY OF ADRIAN
OPERATING INDICATORS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

FUNCTION/PROGRAM FY1995-96 FY1996-97 FY1997-98 FY1998-99 FY1999-2000 FY2000-01 FY2001-02 FY2002-03 FY2003-04 FY2004-05

Police Department	780	780	780	783	609	789	986	1,010	1,034	1,604
Physical Arrests	12,138	9,994	11,020	8,449	9,161	8,450	8,121	8,098	8,190	5,945
Parking Violations	5,807	5,050	2,994	2,771	2,288	3,200	3,600	3,500	3,964	3,758
Traffic Violations										
Fire Department										1668.0
Non-Medical Emergencies										481.0
EMS Rescue Responses	1,902	2,047	1,975	2,151	2,220	2,163	2,243	1,970	2,156	2,149
Emergency Responses	80	85	96	101	133	117	85	83	68	63
Fires Extinguished										
Refuse Collection										
Refuse Collected (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	8,238	6,789	7,172
Recyclables (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	762	900	910
Public Works										
Street Resurfacing (miles)	10.7	5.4	6.6	3.9	4.0	4.5	3.5	2.9	4.1	3.6
Cold/Hot Patch Repair (tons)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	236.1	214.7	212.8
Parks and Recreation										
Athletic Field Permits Issued	196	182	202	179	167	161	179	173	173	164
Program Participants	28,248	36,439	34,245	30,868	38,554	37,981	37,249	34,874	35,118	21,710
Public Library										
Volumes in Collection	77,257	78,733	77,951	81,335	77,335	79,500	82,301	85,950	89,761	93,741
Total Volumes Borrowed	73,571	68,685	73,571	67,684	73,191	70,619	75,106	77,181	79,313	81,504
Water										
New Connections	9	54	17	58	28	1	41	34	28	13
Water Main Breaks					12	28	33	30	15	16
Average Daily Consumption	3,644	3,609	3,436	3,773	3,785	3,397	3,517	3,613	3,580	3,270
(thousands of gallons)										
Peak Daily Consumption	5,890	5,851	5,268	5,406	6,070	5,030	5,520	5,620	5,581	5,026
(thousands of gallons)										
Waste Water										
Average Daily Sewage Treatment	5,642	6,119	5,748	6,954	6,007	5,618	5,742	5,282	5,230	4,932
(thousands of gallons)										
Transit										
Total Route Miles	133,752	131,464	143,330	150,683	153,349	149,986	161,731	159,491	156,934	162,777
Passengers	84,134	80,629	83,900	88,601	95,900	92,337	95,724	91,657	91,138	91,138

Sources: Various Departments

CITY OF ADRIAN
CAPITAL ASSET STATISTICS BY FUNCTION/PROGRAM
LAST TEN FISCAL YEARS

EXHIBIT F-3

FUNCTION/PROGRAM	FY1995-96	FY1996-97	FY1997-98	FY1998-99	FY1999-2000	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05
Police Department										
Stations	1	1	1	1	1	1	1	1	1	1
Patrol Vehicles	14	14	14	14	16	16	16	16	16	16
Motorcycles	0	0	0	0	2	2	4	5	2	2
Fire Department										
Stations	1	1	1	1	1	1	1	1	1	1
Emergency Vehicles	7	7	7	7	7	7	7	7	7	7
Hydrants	521	525	527	538	559	559	559	482	482	482
Public Works										
Streets (miles)	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5	43.5
Highways (miles)	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2	40.2
Bridges	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
Streetlights	874	874	874	874	874	875	875	874	874	874
Traffic Signals	26	26	26	26	26	26	26	26	26	26
Parking Spaces	814	814	814	814	814	814	814	814	814	814
Parks and Recreation										
Ice Rink	612	666	672	672	672	672	672	672	672	674
Playgrounds	5	5	5	6	6	6	6	6	6	6
Baseball Diamonds	10	10	10	10	10	10	10	10	10	10
Soccer Fields	0	0	0	0	0	0	5	5	5	5
Community Centers	1	1	1	1	1	1	1	1	1	1
Water										
Water Mains (miles)	87.26	87.75	90.20	90.20	91.20	91.20	91.20	91.20	93.00	93.00
Customers	6,473	6,414	6,615	6,651	6,693	6,609	6,473	6,631	6,652	6,652
Storage Capacity	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500	2,500
(thousands of gallons)										
Average Pumpage	2,914,263	2,958,517	3,200,000	3,300,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000	3,600,000
(gallons/day)										
Waste Water										
Sanitary Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Storm Sewers (miles)	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42	80.42
Treatment Capacity	12,000,000	12,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
(gallons/day)										
Insit										
Linibuses	5	5	6	6	6	6	6	7	7	7
Various Departments										

RECEIVED

DEPT. OF TREASURY

September 16, 2005

NOV 23 2005

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

LOCAL AUDIT & FINANCE DIV.

We have audited the financial statements of the City of Adrian, Michigan and the combining, individual fund and account group financial statements of the City of Adrian, Michigan as of and for the year ended June 30, 2005, and have issued our report thereon dated September 16, 2005.

In planning and performing our audit of the financial statements of the City of Adrian, Michigan for the year ended June 30, 2005, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

The management of the City of Adrian, Michigan is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operations that we consider to be material weaknesses as defined above.

However, we noted certain matters involving the internal control structure and its operation that we are reporting to you in the remainder of this report. This report is intended solely for the use of management and should not be used for any other purpose.

September 16, 2005

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

PERSONAL PROPERTY TAX RECEIVABLES

During our audit, we were pleased to see that the City is working on removing from the City books old personal property taxes receivable. We are pleased to see efforts are being made for collection of these taxes where collection is a possibility before they are written-off.

INVESTMENT RECORDS

To improve the accounting records for City investments, we recommend that the City's chart of accounts be modified to remove the old investment accounts in the various funds and add new investment accounts which will tie to current investment portfolios by Fund. The new investment account for a Fund may represent the combined total of several investments for that Fund.

BUDGETING

The City is to be commended for its current procedure of amending the budget for each new expenditure appropriation when a revision in the budget is required. This on-going revision of the City budget keeps the City Commission and management aware of what the overall financial effect is on their expenditure and revenue decisions. Also, continuous revision of the budget gives a better financial picture of the City in a timely manner.

In budgeting and amending the City Budget, best effort should be made to keep the budget appropriations in line with actual expenditures. Actual expenditure should be less than budgetary appropriations, especially at the overall fund level.

In fiscal year 2004-05, two funds of the City had overall actual expenditures exceed budget. These funds are the OMNI Special Revenue Fund which is a fund where the City basically handles the accounting function; and the Local Street Revenue Fund which had current and prior period construction commitments in its expenditures. Both funds had sufficient fund equity to cover the excess amounts.

PENSION PLAN

As an update on the City's defined benefit pension plan with MERS (Municipal Employees Retirement System of Michigan), the following position is given as of December 31, 2004. Per the actuarial report as of this date, the plan was unfunded by \$4,443,829 which was 11.2% of total actuarial accrued liability. For the year ended December 31, 2003, the unfunded balance was \$2,759,994 which was 7.5% of total actuarial accrued liability

Projected City contributions to this plan for 2006-07 is \$705,552, compared to \$555,684 for fiscal year 2005-06.

Page 3

September 16, 2005

Honorable Mayor and
Members of the City Commission
City of Adrian, Michigan

FINANCIAL CONDITION

The City of Adrian remains in good financial condition. The unreserved fund balance (designated and undesignated) of the General Fund was \$5,758,113 at June 30, 2005. The undesignated portion of the General Fund balance was \$1,351,947.

The General Fund had a net decrease to fund balance of (\$674,725) for fiscal year 2004-05. Contributing to this decrease was the establishment of the Information Technology Fund with an equity of \$123,804 at June 30, 2005. The overall General Fund's fund balance of \$6,562,368 represents a reserve equal to over 50% of General Fund's total expenditure figure (\$11,494,482).

Funds of the City with low reserves are Local Streets (\$79,812); Municipal Streets (\$24,720); Dial-A-Ride System (no unreserved fund balance); Automobile Parking System (\$83,601); and Storm Water Utility (\$98). Municipal Streets/Local Streets Funds and the Storm Water Utility Fund have future property tax revenue to support their activities.

Again, we appreciate the assistance provided by the City during our audit.

Robertson, Eaton & Owen, P.C.